Dedicated to my Father
Late Shri R. P. Oberoi
Whose Inspirations,
This Book is the Result

PROBLEMS AND SOLUTIONS IN BOOK-KEEPING for C.A.I.I.B.

(Prepared according to the syllabus with topic-wise solutions for the last 34 Sessions)

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Preface to the Second Edition

I am happy to place in the hands of my esteemed readers the second revised and enlarged edition of "PROBLEMS AND SOLUTIONS IN BOOK-KEEPING FOR C.A.I.I.B." The encourging response to the first edition has created in me the confidence regarding the approval of its subject matter and presentation. Some of the salient features of this new edition are as follows :

- Ever since the publication of its first edition, Indian Institute of Bankers conducted 8 examinations in the subject (from November 1979 to May 1982). All the examination problems have been solved, arranged topic-wise and incorporated in the relevant chapters except the paper for May, 1983 which is solved separately at the end of the book.
- Solved practical problems have been increased from 161 and therctical problems from 75 to 79, *i.e.*, an overall increate of problems alongwith their solutions.
- The 9 sections of the book are now subdivided into 35 topics instead of 33 topics. Topics on 'Average due date' and 'partnership-final accounts' have now been included in this edition.
- Solutions of various problems have been made more explanatory. This has been done on the basis of the enquiries received from readers from different places. This will enable students to improve their under standing of the procedure/calculations without any loss of time.
- A set of instructional aids is provided to facilitate home study by students preparing for this professional examination, *viz.* Problems arranged under suitable subheadings, detailed solutions ; Notes, hints and assumptions given at the end of tricky problems.

I am immensely thankful to all who have used the book and helped me generously by giving suggestions from time to time. There will be undoubtedly, a number of mistakes and shortcomings in the book. I shall feel grateful to all those who take the trouble of pointing out these and sending more suggestions and comments.

At the end I shall be failing in my duty to the students if I do not thank them for the very warm reception accorded to the book. Wishing them again all success in examination and promotions in service.

New Delhi
18th July, 1983

S. P. OBEROI

Preface to the First Edition

"PROBLEMS AND SOLUTIONS IN BOOK-KEEPING FOR C.A.I.I B." is especially designed to cater to the overdue requirement of the candidates preparing for the Part-I examination of the Indian Institute of Bankers.

The book contains the following special features :

- It comprehensively covers the entire syllabus. The book has been divided in 9 sections (strictly according to the prescribed syllabus of the Institute). These sections being further sub-divided into 33 topics. Each topic is brief, but it provides complete information on the related subject matter in a logical sequence.
- To enable the candidates to acquire a sound knowledge of the subject matter, every topic is started with a brief theory, which is followed by the solved practical examination problems. The book contains 236 problems—75 theoretical and 161 practical.
- To assist assimiliation, all the question papers of the C.A.I.I.B. (Part-I) examination commencing from February, 1966 till August, 1978 (for the 25 sessions) have been solved and arranged topic-wise. Examination paper for April, 1979 has been solved in the appendix at the end of the book.
- All the solutions are self-explanatory and to the point. Foot notes and detailed workings have been extensively used to illustrate and highlight the difficult points.
- The book is written in a simple, concise and intelligible language so as to enable a candidate having no prior knowledge of the subject to grasp easily the complications and intricacies of the subject.

- It also provides an easy work of reference for those who have basic knowledge of the subject.
- For easy reference, paper-wise index as well alpha-betic index have been compiled at the end of the book.
- Trend of important topics has been incorporated to enable the candidates to have their own *scientific guess* for the next examination.
- This book is primarily intended to be a practical guide for the banking candidates appearing in the Book-keeping paper of Part-I examination of the Indian Institute of Bankers.

I take this opportunity of expressing my best thanks to Shri Prakash Chand, Shri Pratap Chand and to a band of loyal workers, whose uniring efforts and preservance made it possible to bring out this book before you.

I acknowledge, with appreciation, helpful assistance and encouragement, which I got from my colleagues. I feel indebted to all those, who enriched my thinking from time to time. Finally, let me admit frankly that this book would never have seen the rays of the sun without the co-operation of my mother-Smt. Kamla Devi, wife-Shanta, son-Deepak and daughter-Shivali, who tolerated my faults and foibles while I was pre-occupied with the writing of this book.

I wish the readers all success not only in the examination and service, but also in life and shall be grateful if mistakes and deficiencies are brought to my knowledge.

18th July, 1979 S P. OBEROI

Book-Keeping

C.A.I.I.B. Part-I

he Indian Institute of Bankers is conducting the Associate ination, which is divided into two parts—Part I and Part II. -keeping is the fourth paper of Part I, whose prescribed syllabus produced here below :

SYLLABUS

I. Rules for Journalising—Posting of Accounts—Writing of fferent types of Cash Books—Petty Cash Book in Columnar Form and nprest System of Petty Cash—Bank Reconciliation Statement—ifferent types of journals—Writing of Purchase and Sales Journals—ournal Proper.

II. Adjusting, Closing, Transfer and Rectification Entries—Adjustment for bad debts—Provision for doubtful debts and discount on debtors and creditors—Different Methods of Depreciation.

III. Trial Balance and preparation of Trading and Profit & Loss Account and Balance Sheet of a sole trader—Reserves and Provisions—Sinking and Reserve Funds.

IV. Accounts of non-trading concerns—Receipts and Payments Accounts—Income and Expenditure Accounts and Balance Sheets.

V. Bills of exchange and the treatment thereof.

VI. Sectional System of Self-Balancing Ledgers (Simple Problems only).

VII. Consignment and Joint Venture Accounts—Accounts Current—Investment and Share Transactions.

VIII. Simple Partnership Accounts—Fixed and Fluctuating Capitals—Current and Drawings Accounts—Interest on Capital and Drawings and Salary and Commission—Revaluation of Assets—Treatment of Goodwill—Admission—Retirement—Death of Partner—Dissolution excluding Garner Vs. Murray and Sale to a Limited Company—Amalgamation of Firms—Final Accounts—Reserves and Provisions—Sinking and Reserve Funds.

IX. Company Accounts : Issue of shares and debentures at par, Premium and discount—Forfeiture of shares and re-issue of forfeited shares—Issue of Bonus Shares. Simple cases of Final Accounts (only elementary knowledge of Schedule VI of the Company's Act, 1956 is expected)—Reserves and Provisions—Sinking and Reserve Funds.

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Dear Reader

Reg. Problems and Solutions in Book-keeping for C.A.I.I.B.
by S.P. OBEROI

1. Since when have you been using this book ? How many pages of this book have you read so far ?

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15. Any other suggestion/comment you would like to make for the improvement of the book ?

Please feel free to contact us if you have any problem regarding our publications.

Thanking you,

Yours faithfully,

(Rules for Journalising—Posting of Accounts—Writting of Cash Books—Petty Cash Book in columnar form and Imprest System of Petty Cash—Bank Reconciliation Statement—Different types of Journals—Writting of Purchase and Sales Journals—Journal proper.)

A

INTRODUCTION

Problem 1. What do you understand by the term 'Book-keeping' What are the objects of Book-Keeping ?

Solution. Book-keeping is an art of recording financial tran actions in a set of books, in such a way as to make others understand at glance and with as little trouble as possible the net result of the tran actions entered into during a given period and the financial position of th business entity as at a particular date.

The record of business transactions is kept in such a manner that a any given date the owner/s of a business is/are able to know :

(1) The exact state of his/their relationship with the individual with whom he/they deal :

(*a*) The amount and names of the customers from whom the busi ness has to receive payments (DEBTORS) ; and

(*b*) The amount and the names of the persons to whom the bus ness has to make payments (CREDITORS)

(2) The result of the transactions—whether profitable or other wise, and the amount of profit or loss for the period. The types an amounts of various heads of incomes and expenses can also be ascer tained.

(3) The financial position of the business :

(*a*) The value and nature of the assets or properties of the busines (the properties, possessions and belongings).

(*b*) The value and nature of liabilities (sums owing by the firm t others).

(*c*) The amount of owners' capital (excess of assets over liabilities)

(4) The size and the reasons for increase or decrease in the amoun of capital.

(5) Information of cash in hand and cash at bank/s.

(6) The value of stock of goods in hand.

(7) Details of money invested in fixed assets.

(8) The details and quantum of cash and credit purchases and sale made during the period.

(9) Other facts and information required by the Income Tax, Sales Tax or other authorities.

Problem 2. Give the definition of Accounting ? How does it differ from Book-keeping ?

Solution. Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof. There is not much difference between the two terms "Book-keeping and Accountancy". They are two different stages. The initial stage, *i.e.*, the original recording of business transactions is called Book-Keeping. Accounting is a generic term and Book-Keeping is a part of it.

Problem 3. Explain the following terms :

(*i*) Business Transactions, (*ii*) Account, (*iii*) Ledger, (*iv*) Posting, (*v*) Debtor, (*vi*) Creditor, (*vii*) Assets, (*viii*) Liabilities, (*ix*) Capital, (*x*) Drawings, (*xi*) Solvent, (*xii*) Insolvent, (*xiii*) Debit and Credit, (*xiv*) Double Entry System and (*xv*) Entry.

Solution. (*i*) **Business Transactions.** Any exchange of money or money's worth, *i.e.*, exchange of goods and services between two persons is called a business transaction. It may relate to purchase and sale of goods, receipt and payment of cash and rendering of service by one person to another.

When payment for a business activity is made immediately, it is called cash transaction, but when the payment is postponed to a future date, it is called a credit transaction.

(*ii*) **Account.** An account is a summarised record and systematic arrangement of transactions for a period affecting one person, one kind or property or one class of gains or losses.

Every account is divided into two sides—Debit side (*i.e.*, the left-hand side) and Credit side (*i.e.*, the right hand side).

Accounts are broadly classified into two heads :

(I) **Personal Accounts.** These are the accounts of natural persons, artificial persons and body of persons, and representative personal accounts with whom the trader deals. Examples would be : Mohan, Ashok, Rama Bros., Delhi Cloth Mills, Chemsford Club, Bank of Baroda, Outstanding Salaries, Insurance Prepaid, Capital, Drawings, etc.

(II) **Impersonal Accounts.** These are those accounts, which do not affect particular persons, but affect business in general, such as Machinery, Furniture, Cash, Rent, Salaries, etc.

These impersonal accounts are further sub-divided into two classes :

(*a*) **Real Accounts.** These are the accounts of property or possessions, *i.e.*, accounts relating to tangible things such as Cash, Stock in hand, Plant and Machinery, Investments, Buildings, etc.

(*b*) **Nominal Accounts.** These are the accounts relating to gains, incomes, expenses or losses, *e.g.*, Discount, Commission, Exchange, Rent,

Salary, Conveyance, Entertainment, Advertisement, Stationery consumed, Brokerage, etc.

Types of Accounts

- Personal
- Impersonal
  - Real
  - Nominal

(iii) **Ledger.** This is a bound book or *register* containing the various accounts connected with business.

(iv) **Posting.** Every transaction is first recorded in the Journal, and from it, this is transferred to the concerned account in the Ledger. This process of transferring the transactions from the Journal to the ledger is called 'Posting'.

(v) **Debtor.** One who has to pay to the firm.

(vi) **Creditor.** One to whom the firm has to pay.

(vii) **Assets.** Anything of value owned by a person or business.

(viii) **Liabilities.** Anything owed, a debt, the claim of an outsider against the business.

(ix) **Capital.** The owner's interest in his business, *i.e.*, the value of assets *less* the value of liabilities.

(x) **Drawings.** Any amount or goods drawn by the proprietor of a business for personal use.

(xi) **Solvent.** *A person is said to be 'Solvent' when his assets exceed or equal his liabilities.*

(xii) **Insolvent.** A person is 'Insolvent' when his liabilities exceed his assets.

(xiii) **Debit and Credit.** When in an account, a record is made on the left-hand side, it is stated that he has debited that account; and when an amount is recorded on the right-hand side, it is credited. The rules for these are :

- All assets accounts increase on the debit side and decrease on the credit side.
- All liability accounts increase on the credit side and decrease on the debit side.
- Capital increases on the credit side and decreases on the debit side.
- Incomes increase on the credit side and decrease on the debit side.
- Increases in expenses are debits and decreases are credits.

(xiv) **Double Entry System.** *Every business transaction has a two-fold effect, affecting two accounts in opposite directions. In a cash sale of goods, cash is received and goods are given; in cash purchases of goods, goods are received and cash is paid; in a credit sale the customer* becomes the debtor and goods are given; similarly, in a credit purchase goods are received and the supplier becomes the creditor.

To have a complete record, both the aspects of each business transaction are recorded—one account is debited while the other account is credited with an equal amount.

This method of recording every transaction in two accounts is called Double Entry System.

(*xv*) **Entry.** The record made in the books of accounts in respect of a transaction is called an entry.

Problem 4. Give short note on :

Single Entry Book-keeping ; Double Entry Book-keeping.

(*I.I.B. Part I, May 1969*)

Solution.

Single Entry Book-Keeping

Single Entry is a crude form of Book-keeping under which only Personal Accounts and Cash Accounts are maintained, and only one aspect of each transaction as it affects the Personal Accounts is recorded. The main purpose of single entry book-keeping is to enable a trader to ascertain from his books how much is due to him from his debtors and how much he owes to his creditors.

In the absence of any Impersonal Accounts being kept, the books fail to disclose information for the preparation of Profit & Loss Account, or particulars of Assets and Liabilities for the preparation of Balance Sheet.

It is an unscientific and incomplete system.

The arithmetic accuracy of the books cannot be tested, because a Trial Balance cannot be prepared.

Sales and Purchases cannot be readily ascertained.

The trader cannot ascertain as to what profit or loss he has made or sustained and how such profit or loss has arisen, because trading and profit and loss accounts cannot be prepared.

The true financial position of the business cannot be ascertained, because balance sheet cannot be prepared.

Double Entry Book-Keeping

Double Entry system of Book-keeping is that system by which the two-fold aspects of every transaction are recorded in appropriate accounts in the ledger.

This is a scientific and complete system.

It facilitates preparation of Trial Balance by the use of which the arithmetic accuracy of the records could be ascertained.

The profit or loss during a given period can be ascertained together with details.

The financial position of the business, at any given moment, can be ascertained by means of Balance Sheet.

This system affords significant information for purposes of control, etc.

The management can obtain important information from this system for making decisions.

Results of one period can be compared with previous periods.

The firm is saved from frauds and misappropriations.

B

JOURNALISING

Problem 1. What is Journal? Explain Journalising.

Solution. All business transactions, as and when they occur, are recorded in the Journal, which is given below:

JOURNAL

(1)	(2)	(3)	(4)	(5)
Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
Year M.D.			Rs.	Rs.

Column (1) is used for entering the date of the transaction. The year is written on the top, then the date column is divided into two parts—the first part (M) is used for the month and the second part (D) for the date.

Column (2) is used for entering the names of the accounts which are affected by the transaction.

Column (3) is used for entering the page number of the Account in the Ledger, to which the entry is posted

Column (4) is used for recording the amount to be debited along with the currency.

Column (5) is used for recording the amount to be credited along with the currency.

The technique of analysing transactions as to which account is to be debited and which account is to be credited is called **Journalising**.

To learn journalising, it is very important to decide as to which class of accounts are affected by that transaction. Having ascertained the above, the undernoted rules of debit and credit are to be followed:

(1) For Personal Accounts. The account of each person or firm is debited with any benefit such person or firm receives and is credited with any benefit such firm or person gives. The rule is:

DEBIT THE RECEIVER,
CREDIT THE GIVER.

(2) For Real Accounts. When any tangible thing—property, asset or possession—is received, the amount is debited and when such an asset is being given away, its account is credited. The rule is:

DEBIT WHAT COMES IN,
CREDIT WHAT GOES OUT.

(3) **For Nominal Accounts.** Each such account is Debited when an expenditure or loss is incurred, and is credited when there is any gain. The rule is :

DEBIT ALL EXPENSES OR LOSSES,
CREDIT ALL INCOMES OR GAINS.

Notes : For recording a transaction in the Journal, it must be mentally analysed on the following lines :

(*a*) What are the accounts involved in the transaction ?
(*b*) Classify the accounts—whether Personal, Real or Nominal.
(*c*) Rules of Debit and Credit applicable to that type of account.
(*d*) Ascertain which account to be debited/credited.

Example. X started business with cash Rs. 25,000 on 1st Jan. 19...

ANALYSIS

Date	*Accounts Involved*	*Classi-fication*	*Rules for Debit and Credit*	*Explanation*	*Account Debited*	*Account Credited*
19... Jan. 1	Cash A/c	Real	Debit what comes in	Cash comes in the business, which has been given by the proprietor	Cash A/c	
	X's Capital A/c	Personal	Credit the giver			X's Capital A/c

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
19...				Rs.	Rs.
Jan. 1	Cash A/c	Dr.		25,000	
	To X's capital A/c				25,000
	(Being Capital introduced in the business)				

Problem 2. Discuss the ruling, balancing and closing of a ledger account.

Solution. The ledger accounts record not only the amount of transactions, but also their effect and direction. For recording the debit entries distinctly from credit entries, a ledger account has two sides—Debit and Credit.

Usually a ledger account is ruled as follows :

Dr.		NAME OF THE ACCOUNT					*Cr.*
Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To name of Credit A/c				By name of Debit A/c		

An alternative ruling, which is adopted by the banks and some business houses is also given below :

NAME OF THE ACCOUNT

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*	*BALANCE Dr./Cr. Amount*	*Initials*
			Rs.	Rs.	Rs.	
	To name of Credit A/c					
	By name of Debit A/c					

The name of the account is mentioned at the top.

The date of every transaction is recorded in the date column.

Every entry on the debit side commences with the prefix 'To' and on the credit side it commences with the word 'By' in the particulars column Every debit has a corresponding credit in the Double Entry System, therefore, when one account is debited, another account is credited. Hence, while debiting an account, the name of the account that is credited is shown; and while crediting an account the name of the account that is debited is shown in the particulars column.

In the L.F. column are written the page numbers of the Journal from where the entry is posted.

The debit and credit amount columns are used for writing the amounts of the transactions.

Separate ledger account is kept for each person, for each asset and liability and for each head of income or expense.

Ledger accounts are closed periodically. For this purpose, the two sides are totalled separately and the difference (or balance) is written on the shorter side; then the two sides are totalled and tallied. The balance is then entered on the opposite side of the account for the next period.

Credit balance means that the totals of credit side are higher and **Debit balance** means that the totals of debit side are higher.

Balance in PERSONAL ACCOUNTS indicates whether the person is a Debtor (Debit balance) or is a Creditor (Credit balance) of the business entity on any one date.

Balance in REAL ACCOUNTS shows the incomings (Debits) and outgoings (Credits) of the several assets dealt in by the trader

Balance in NOMINAL ACCOUNTS shows the amounts of expenses incurred in carrying on the business (Debit) and the amounts and sources of income (Credit).

When the ledger accounts are closed, in the case of **Real** and **Personal** accounts, closing balances are carried forward which become the opening balances of the next period. The debit balances are shown as Assets and the credit balances are shown as Liabilities in the Balance Sheet. The balances of Nominal accounts are transferred to the Trading and Profit & Loss Account—the debit balances (expenses) are debited to this account and the credit balances (incomes) are credited to this account. The net profit (in case of credit balance) or net loss (in case of debit balance) from the Trading and Profit & Loss Account is transferred to the Capital Account, which is ultimately shown on the liabilities side of the Balance Sheet, it having a credit balance in the Personal Accounts.

Problem 3. How posting is made from the Journal in the Ledger?

Solution. From the journal, the entries are posted into the ledger on that side of the account on which they appear in the Journal—the Debit entries to the debit of the respective accounts and the credit entries to their credit.

Example :

JOURNAL ENTRY

Date 19......	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
Jan. 1	Cash A/c	Dr.		25,000	
	To X's Capital A/c				25,000
	(Being commenced business with cash)				

LEDGER ACCOUNTS

Dr. X's CAPITAL ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.	19......			Rs.
				Jan. 1	By Cash A/c		25,000

Dr. CASH ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
19...			Rs.				Rs.
Jan. 1	To X's Capital A/c		25,000				

Problem 4. Journalize the following transactions:

(1) Bought goods on credit from A Rs. 200.

(2) Goods returned by B Rs. 25.

(3) Paid carriage inwards Rs. 5.

(4) Cheque Rs. 70, received from C in settlement of a debt of Rs. 75, returned dishonoured.

(5) Paid Insurance Rs. 15.
(6) Sale of Typewriter for Rs. 150.
(7) Rs. 125 owing by M written off as bad debt.
(8) Drew three months Bill on N for Rs. 200.
(9) Sold goods Rs. 125 to X on credit.

(I.I.B. Part I, May 1974)

Solution:

JOURNAL ENTRIES

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Purchases A/c	Dr.		200	
	To A				200
	(Being goods purchased on credit from A vide their invoice no.......dated . ...)				
(2)	Returns Inwards A/c	Dr.		25	
	To B				25
	(Being part of the goods sold to B returned by him on account of (*Reason*) and Credit Note No.............dated............issued in his favour)				
3)	Carriage Inwards A/c	Dr.		5	
	To Cash A/c				5
	(Being carriage charges paid on purchases vide Voucher No. ....Dated......... ..)				
	C	Dr.		75	
	To Bank A/c				70
	To Discount A/c				5
	(Being C's cheque for Rs. 70 received in full settlement of his account for Rs. 75 returned dishonoured by the Bank. Discount already allowed to him re-adjusted)				
				Rs.	Rs.
	Insurance Premium A/c	Dr.		15	
	To Cash A/c				15
	(Being Insurance Premium paid for the period commencing from .... to.. ...)				
	Cash A/c	Dr.		150	
	To Typewriter A/c				150
	(Being the sale proceeds of an old typewriter at its written down value)				

(7)	Bad Debts A/c Dr. To M (Being the amount irrecoverable from M, written off as bad debt)		125	125
(8)	Bills Receivable A/c Dr. To N (Being bill drawn on N for three months duly accepted by him. The due date of the bill is.....................)		200	200
(9)	X Dr. To Sales A/c (Being goods sold to X on credit vide our Invoice No...........of date)		125	125

Problem 5. On 16th January 1968, E bought from F 10 doz. pairs of blankets at Rs. 25 per pair, subject to 10 per cent trade discount and 5 per cent discount for cash within fourteen days. On 18th January E returned 20 pairs of blankets and on 27th January sent a cheque to settle his account. Pass necessary Journal entries and show F's account in E's books.

(*I.I.B. Part 1, May 1968*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF E

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1968			Rs. P.	Rs. P.
Jan. 16	Purchases A/c Dr. To F (Being goods purchased from F vide their Invoice No.........dated......... for Rs. 3 000. He was allowed 10% Trade discout, *i.e.*, Rs. 300 on the total value)		2,700·00	2,700·00
Jan. 18	F Dr. To Returns Outwards A/c (Being part of the goods returned to the supplier—20 pairs of blankets @ Rs. 25 each pair, *i.e.*, for Rs. 500. Trade Discount already allowed @ 10% now disallowed on the returned goods)		450·00	450·00

			Rs.	Rs.
Jan. 27	F	Dr.	2,250·00	
	To Bank A/c			2,137·50
	To Discount A/c			112·50
	(Being amount remitted by cheque in full settlement of the account. The supplier allowed 5% Cash Discount as the payment has been made within 14 days as per the terms of the agreement with them)			

In the Books of E :

Dr. F's ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1968			*Rs. P.*	1968			*Rs. P.*
Jan. 18	To Returns Outwards A/c		450·00	Jan. 16	By Purchases		2,700·00
Jan. 27	To Bank A/c		2,137·50				
	To Discount A/c		112·50				
			2,7C0 00				2,700·00

JOURNAL ENTRIES IN THE BOOKS OF F

Date	*Particulars*		*L.F*	*Debit Amount*	*Credit Amount*
1968				Rs. P.	Rs. P.
Jan. 15	E	Dr.		2,700·00	
	To Sales A/c				2,700·00
	(Being credit sales made to E vide our Invoice No . ...of date. 10-doz. pairs of blankets at Rs. 25 per pair Allowed trade discount @ 10%.)				
Jan. 18	Returns Inwards A/c	Dr		450·00	
	To E				450·00
	(Being 20 pairs of blankets returned by the purchaser. Trade discount already allowed to him, now disallowed)				

Jan. 27	Bank A/c	Dr.	2,137·50	
	Discount A/c	Dr.	112·50	
	To E			2,250·00
	(Being the proceeds of sale made vide Invoice No . ...dated.........received in full and final settlement. Cash discount allowed on the proceeds @ 5%.)			

Note. The amount of Purchases or Sales made is always arrived at after deducting the Trade Discount and only the net amount is considered. No entry is made in the books of accounts. Cash discount is allowed on payment being made before a certain stipulated time or period. The amount of cash discount is shown separately in the books of accounts - Discount allowed by the supplier is an expense and discount earned by the purchaser is an income for him.

C

CASH BOOKS

Problem 1. What is a Cash Book ? What are the various type of Cash Book ? How is it balanced ? Explain the method of Posting.

Solution. The number of transactions relating to cash are usually large. Further, cash can easily be stolen by dishonest employees. Thus, it becomes utmost necessary to maintain up-to-date cash records which must be supervised by a responsible person. Cash Book is used for keeping a daily record of the transactions relating to receipts and payments of cash.

Cash Book serves a double function—one as a book of original entry and the other as a ledger account. If Cash Book is prepared, it is not necessary to open a separate Cash Account in the ledger.

Cash Book may be of three types :

A. Simple Cash Book,

B. Cash Book with cash and discount columns, and

C. Cash Book with discount, cash and bank columns.

A. SIMPLE CASH BOOK

It records the receipts and payments of cash. All cash received in the form of notes, coins, cheques, bank drafts, postal orders or in any other form are recorded on the debit side and all cash payments are recorded on the credit side.

When cash is received, a printed receipt stating full particulars thereof, dated and signed by the cashier is generally issued to the person paying it and a carbon copy or counterfoil retained. This receipt number may be entered in a column provided for this purpose on the debit (Receipts) side. Similarly, for every payment, a supporting voucher may be prepared, whose number is then entered against the respective payment on the credit side.

Ruling :

Receipts				CASH BOOK					Payments
Date	*Particulars*	*R. No.*	*L.F.*	*Amount* Rs.	*Date*	*Particulars*	*V. No.*	*L.F.*	*Amount* Rs.

Balancing :

Cash Book must be balanced daily and the balance shown by it must be tallied with actual cash in box. Since total cash paid can never exceed the opening balance plus cash received, the Cash Book always shows a debit balance which is carried forward to the next period.

Posting

Opening balance of the Cash Book is not posted to any account. The other entries appearing on the debit side of the cash book are posted to the credit side of the respective accounts. The postings from the credit side of the Cash Book are to the debit of the respective accounts. The closing balance of cash in hand is not posted to any account, but is carried forward as opening balance of cash for next period.

B. CASH BOOK WITH CASH AND DISCOUNT COLUMNS

A concern which allows cash discount on amounts received and receives similar discounts on amounts paid, finds it convenient to have a cash book with an extra column on both sides—debit for discount allowed and credit for discount earned Discount column on the debit side represents cash discount allowed and on the credit side cash discount received.

Ruling :

Receipts				CASH BOOK							Payments
				Amount						*Amount*	
Date	*Particulars*	*R. No.*	*L.F.*	*Dis.*	*Cash*	*Date*	*Particulars*	*V. No.*	*L.F.*	*Dis.*	*Cash*
				Rs.	Rs.					Rs.	Rs.

Balancing :

Cash columns are balanced and tallied with actual cash in box. It always shows a debit balance.

Discount columns are memorandum columns and are totalled *only*.

Jan. 27	Bank A/c	Dr.	2,137·50	
	Discount A/c	Dr.	112·50	
	To E			2,250·00
	(Being the proceeds of sale made vide Invoice No . ...dated.........received in full and final settlement. Cash discount allowed on the proceeds @ 5%.)			

Note. The amount of Purchases or Sales made is always arrived at after deducting the Trade Discount and only the net amount is considered. No entry is made in the books of accounts. Cash discount is allowed on payment being made before a certain stipulated time or period. The amount of cash discount is shown separately in the books of accounts - Discount allowed by the supplier is an expense and discount earned by the purchaser is an income for him.

C

CASH BOOKS

Problem 1. What is a Cash Book ? What are the various type of Cash Book ? How is it balanced ? Explain the method of Posting.

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Cash Book serves a double function—one as a book of original entry and the other as a ledger account. If Cash Book is prepared, it is not necessary to open a separate Cash Account in the ledger.

Cash Book may be of three types :

A. Simple Cash Book.

B. Cash Book with cash and discount columns, and

C. Cash Book with discount, cash and bank columns.

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It records the receipts and payments of cash. All cash received in the form of notes, coins, cheques, bank drafts, postal orders or in any other form are recorded on the debit side and all cash payments are recorded on the credit side.

When cash is received, a printed receipt stating full particulars thereof, dated and signed by the cashier is generally issued to the person paying it and a carbon copy or counterfoil retained. This receipt number may be entered in a column provided for this purpose on the debit (Receipts) side. Similarly, for every payment, a supporting voucher may be prepared, whose number is then entered against the respective payment on the credit side.

Ruling :

Receipts				CASH BOOK					Payments
Date	*Particulars*	*R. No.*	*L.F.*	*Amount* Rs.	*Date*	*Particulars*	*V. No.*	*L.F.*	*Amount* Rs.

Balancing :

Cash Book must be balanced daily and the balance shown by it must be tallied with actual cash in box. Since total cash paid can never exceed the opening balance plus cash received, the Cash Book always shows a debit balance which is carried forward to the next period.

Posting

Opening balance of the Cash Book is not posted to any account. The other entries appearing on the debit side of the cash book are posted to the credit side of the respective accounts. The postings from the credit side of the Cash Book are to the debit of the respective accounts. The closing balance of cash in hand is not posted to any account, but is carried forward as opening balance of cash for next period.

B. CASH BOOK WITH CASH AND DISCOUNT COLUMNS

A concern which allows cash discount on amounts received and receives similar discounts on amounts paid, finds it convenient to have a cash book with an extra column on both sides—debit for discount allowed and credit for discount earned Discount column on the debit side represents cash discount allowed and on the credit side cash discount received.

Ruling :

Receipts				CASH BOOK						Payments
				Amount						*Amount*
Date	*Particulars*	*R. No.*	*L.F.*	*Dis.*	*Cash*	*Date*	*Particulars*	*V. No.*	*L.F.*	*Dis.*	*Cash*
				Rs.	Rs.					Rs.	Rs.

Balancing :

Cash columns are balanced and tallied with actual cash in box. It always shows a debit balance.

Discount columns are memorandum columns and are totalled only.

Posting :

The totals of discount columns are posted to the Discount Accoun in the ledger—debit totals to the debit side of the account and credit totals to the credit side of the account. The individual items of discountt allowed (shown on the debit side) are posted to the credit of their respective personal accounts and each item of discount received (shown in the credit side) is posted to the debit of the respective personal account.

The cash columns are posted in the same way as in the Simple Cash Book.

C. CASH BOOK WITH DISCOUNT, CASH AND BANK COLUMNS

These days banking habit has become so widespread and is so convenient that many payments are made and received through cheques. Thus, when there is a Bank account and the bank transactions are entered through a simple cash book or a cash book with cash and discount column only, every time that a payment is made by cheque (or when a cheque is received from a customer and is deposited into the bank), four distinct steps have to be taken to record the fact. Two entries are to be made in the Cash Book, *viz.* one on the receipts or debit side to record the fact of the amount being received from the Bank (or from the debtors), and the other on the payments side to record the fact that the payment has been made on some account (or to the Bank). Then again both these entries will have to be posted. All this makes the account keeping highly cumbersome.

To avoid this unnecessary labour, the cash book may be so devised as to have not only cash and discount columns, but also a Bank column on either side.

Ruling :

Receipts CASH BOOK Payments

				Amount							Amount		
Date	*Particulars*	*R. No.*	*L.F.*	*Dis.*	*Cash*	*Bank*	*Date*	*Particulars*	*V. No.*	*L.F.*	*Dis.*	*Cash*	*Bank*
				Rs.	Rs.	Rs.					Rs.	Rs.	Rs.

The undernoted rules are observed while preparing such a Cash Book :

(*a*) Cash received is entered in the cash column on the debit side.

(*b*) Cash payaments are entered on the credit side in the cash column.

(*c*) Payments by cheques are entered on the credit side in the bank column.

(*d*) Deposits of cheques in the bank are recorded on the debit side in the bank column.

(*e*) Direct deposits by customers into the bank account are debited in the bank column.

(*f*) Dishonour of a cheque, earlier deposited into the Bank, is recorded in the bank column on the credit side.

(*g*) Bank charges and payments made by the bank or interest charged by the bank are recorded in the bank column on the credit side.

(*h*) Interest on deposits given by the bank, or interest, dividends, etc. collected by the bank are debited in the bank column.

(*i*) Cash paid into the bank is recorded first on the credit side in the cash column as 'By Bank'. This being a transfer of cash from the office into the bank, the amount is also entered on the debit side in the bank column as 'To Cash'. Such an entry is known as CONTRA ENTRY and is denoted by writing letter 'C' in the ledger folio column on both the sides of the Cash Book to indicate that no posting is necessary.

(*j*) Cash withdrawn from the Bank is recorded in the bank column on the credit side as 'By Cash' and simultaneously an entry is made in the cash column on the debit side as 'To Bank'. This is also a contra entry and is denoted by letter 'C' in the L.F. column on both the sides of the Cash Book.

Balancing :

The discount columns will be totalled.

The cash columns would always show a debit balance which would be carried down to the debit side in the cash column.

Bank columns usually show a debit balance and would show the trader's cash lying with the Bank. Should a trader, however, draw out more money than he has lodged in the bank, the balance will then be a credit balance, and will mean overdraft.

Posting :

Each item of discount allowed will be posted to the credit of respective personal account and total of discount column (debit side) is posted to the debit side of Discount Account with the words 'To Sundry Debtors'. Similarly, each item of discount received will be posted to the debit of respective personal account and total of this side will be posted to the credit of Discount Account with the words 'By Sundry Creditors'.

Opening Balances of Cash and Bank columns are not posted. Closing balances are carried forward to the next period. Contra entries are also not posted. Rest items on the debit and credit sides of Cash and Bank columns are posted in the credit and debit sides of the concerned accounts respectively.

Problem 2. Record the following transactions in the cash book with cash and discount columns only :

1969			Rs
January	1	Cash Balance	200
		Cash received from sale of shares	12,000
,,	2	Paid into Bank	10,000
,,	3	Paid Jules by cheque	2,400
		Discount allowed by him	100
		Received from H. Hale by cheque	1,960
		Allowed him discount	40
,,	4	Paid wages by cash	500
,,	10	Paid Hale's cheque into Bank	1,960
,,	16	Bought goods for cash	1,200
,,	18	Paid for Stationery in cash	300
,,	19	Paid J. Fales by cheque	740
		Discount allowed by him	50
		Drew from Bank	640
,,	20	Received for cash sales	340
,,	24	Cash withdrawn for personal use	400
		Received from Robins	3,600
		Allowed him discount	150
,,	25	Paid into Bank	400
,,	26	Issued cheques for purchases	400
		Drew cheque for personal use	200
		Paid Salary by cash	650
,,	27	Received cheque from Smith and paid into Bank	800
		Drew cheque for office use	600

Note : Pass Contra Entries for bank transactions,

(*I.I.B. Part 1, May 1970*)

Solution :

CASH BOOK

Dr. *Receipts* — *Payments* *Cr.*

Date	Particulars	L.F.	Amount Discount	Amount Cash	Amount Bank	Date	Particulars	L.F.	Amount Discount	Amount Cash	Amount Bank
1969			Rs.	Rs.	Rs.	1969			Rs.	Rs.	Rs.
Jan 1	To Balance b/d			200		Jan. 2	By Bank	C		10,000	
	To Shares A/c			12,000		,, 3	By Jules		100		2,400
,, 2	To Cash	C			10,000	,, 4	By Wages A/c			500	
,, 3	To H. Hale		40	1,960		,, 10	By Bank	C		1,960	
,, 10	To Cash	C			1,960	,, 16	By Purchases A/c			1,200	
,, 19	To Bank	C		640		,, 18	By Stationary A/c			300	
,, 20	To Sales A/c			340		,, 19	By J. Fales		50		740
,, 24	To Robins		150	3,600		,, 19	By Cash	C			640
,, 25	To Cash	C			400	,, 24	By Drawings A/c			400	
,, 27	To Smith				800	,, 25	By Bank	C		400	
,, 27	To Bank	C		600		,, 26	By Purchases A/c				400
						,, 26	By Drawings A/c				200
						,, 26	By Salary A/c			650	
						,, 27	By Cash	C			600
						,, 31	By Balanced c/d			3,930	8,180
			190	19,340	13,160				150	19,340	13,160
69											
b. 1	To Balance b/d			3,930	8,180						

Problem 3. Enter the following transactions in cash book, with cash, bank and discount columns and bring down the balances :

			Rs.
March	1	Balance at Bank	2,000
		Purchased goods by cheque	1,000
		Drew cheque for office cash	50
		Purchased stationery for cash	10
,,	3	Received from C cheque	125
		Allowed discount	3
,,	9	Received from A cheque	140
		Allowed discount	4
,,	10	Carriage paid in cash	3
,,	12	Received cheque from D	175
		Allowed discount	3
,,	13	Paid cooly hire—cash	8
		Drew cheque for G for rent	180
,,	15	Paid for purchases—cheque	2,000
		Received from C cheque	90
		Allowed discount	2
,,	20	Paid for postage cash	5
		Paid K by cheque	195
		Allowed discount	5
,,	22	Received cheque for sales	150
,,	23	Paid for cleaning office	5
,,	27	Paid wage—cash	50
,,	30	Drew cheque for salaries	200
		Drew cheque for office use	300

(*I.I.B. Part I, May 1969*)

Solution :

CASH BOOK

Dr. Receipts						Payments					Cr.
Date	Particulars	L.F.	Amount			Date	Particulars	L.F.	Amount		
			Discount	Cash	Bank				Discount	Cash	Bank
19......			Rs.	Rs.	Rs.	19......			Rs.	Rs.	Rs.
Mar. 1	To Balance b/d				2,000	Mar. 1	By Purchases A/c				1,000
Mar. 1	To Bank	C		50		Mar. 1	By Cash	C			50
Mar. 8	To C		3		125	Mar. 1	By stationary A/c			10	
Mar. 9	To A		4		140	Mar. 10	By Carriage A/c			3	
Mar. 12	To D		3		175	Mar. 13	By Cartage A/c (Colly hire)			8	
Mar. 15	To C		2		90	Mar. 13	By Rent A/c				180
Mar. 22	To Sales A/c				150	Mar. 15	By purchases A/e				2,000
Mar. 30	To Bank	C		300		Mar. 20	By Postage A/c			5	
Mar. 31	To Balance c/d				1,245	Mar. 20	By K		5		195
						Mar. 23	By Cleaning Charges A/c			5	
						Mar. 27	By Wages			50	
						Mar. 30	By Salaries				200
						Mar. 30	By Cash	C			300
						Mar. 31	By Balance c/d			269	
			12	350	3,925				5	350	3,925
.3......						19......					
pr. 1	To Balance b/d			269		Apr. 1	By Balanced b/d				1,245

Problem 4. Mr. Rokadiya maintains Cash Book with bank columns. Enter the following transactions of May, 1977 in the Cash Book and balance the same :

(*i*) Balances at the beginning of the day :

		Rs.
Cash	... ...	150
State Bank of India	... ...	25,000
Bank of India (Overdraft)	... ...	3,000

(*ii*) Received a cheque of Rs. 5,350 from Merwan Bros. in full settlement of Invoice for Rs. 5,500. The cheque was deposited in Bank of India, who charged Rs. 3 as collection charges.

(*iii*) Cash Purchases Rs. 10,000. Paid bearer cheque on State Bank of India.

(*iv*) Transferred Rs. 5,000 from State Bank of India to Bank of India.

(*v*) Withdrew Rs. 5,000 from State Bank of India –Rs. 3,000 for office use and Rs. 2,000 for personal use.

(*vi*) Paid advance salary to Manager Rs. 1,000 by bearer cheque on Bank of India.

(*I.I.B. Part 1, May 1977*)

CASH BOOK OF MR. ROKADIYA

Dr. — Receipts

Date	Particulars	L.F.	Discount	Cash	State Bank of India	Bank of India
			Rs.	Rs.	Rs.	Rs.
1977 May 21	To Balance b/d			150	25,000	
	To Merwan Bros.		150			5,350
	To State Bank of India	C				5,000
	To State Bank of India	C		5,000		
			150	5,150	25,000	10,350
1977 May 22	To Balance b/d			3,150	5,000	6,347

Payments — Cr.

Date	Particulars	L.F.	Discount	Cash	State Bank of India	Bank of India
			Rs.	Rs.	Rs.	Rs.
1977 May 21	By Balance b/d					3,000
	By Bank charges A/c					3
	By Purchases A/c				10,000	
	By Bank of India	C			5,000	
	By Cash	C			5,000	
	By Drawings A/c			2,000		
	By Advances to Staff A/c (Paid to Manager)					1,000
	By Balanced c/d			3,150	5,000	6,347
			—	5,150	25,000	10,350

D

PETTY CASH BOOK

Problem 1. How are petty payments made and recorded in a business ? What purpose does an Analytical Petty Cash Book Serve ? What do you understand by 'Imprest System of Petty Cash' ?

Solution. In every business, there are many petty and insignificant expenses like Taxi-fare, Coolie hire, Refreshment to visitors, Tips, Small charitable contributions, Purchases of stamps, or emergency purchase of supplies, etc. In order to record these petty administrative expenses, a separate book called Petty Cash Book is generally maintained.

Cheques are drawn periodically or amounts are advanced by the Chief Cashier from time to time to the Petty Cashier. This amount is credited in the Cash Book and posted to the debit of Petty Cash Account in the ledger. At the same time, the amount is entered on the debit side of the Petty Cash Book. On periodic intervals, the Petty Cashier presents a summary of expenses incurred by him during the stated period. A journal entry debiting each expense account with the total of the amount spend on it during the given period, and crediting the Petty Cash Account is then passed and posted.

Simple Petty Cash Book

It is written up just like the Cash Book, except that the columns for the date and particulars are common to both receipts and payments and are provided in the middle. The excess of debit over the credit on any date show the Petty Cash Balance in hand.

Ruling :

SIMPLE PETTY CASH BOOK

Dr. *Cr.*

Amount Received	*CB Fol.*	*Date*	*Particulars*	*V. No.*	*L.F.*	*Amount Paid*
Rs. P.						Rs. P.

Analytical Petty Cash Book

In this form the payments side is extended to show analysis of payments. All the amounts disbursed are entered on the credit side of the Petty Cash Book in the appropriate expenditure columns and also in the 'Amount Paid' column.

If payments to sundry parties are also made on account through the petty cash, a special column is provided in the Petty Cash Book for recording the amounts so paid, and the entries therein are individually posted to the ledger accounts of the parties.

Ruling :

ANALYTICAL
PETTY CASH BOOK

Dr. *Cr.*

Amount Recd.	*C.B. Fol.*	*Particulars*	*V. No.*	*Amount Paid*	*ANALYSIS OF PAYMENTS*						
					Postage	*Stationery*	*Cartage*	*Conveyance*	*Sundry Expenses*	*L.F.*	*Personal Accounts*
Rs. P.				Rs.P.	Rs.P.	Rs.P.	Rs.P.	Rs.P.	Rs.P.		Rs P.

Imprest System of Petty Cash

Under the imprest system, a round sum is given to the Petty Cashier at the beginning of the period. This amount is fixed on making an estimate of the total payments that will have to be made from the Petty Cash over the choosen period, after which it would be convenient to reimburse the amount paid to the imprest. At the end of each such period, the Petty Cashier surrenders a statement of account and gets reimbursement of the amount actually spent by him.

Problem 2. Enter the following transactions in a columnar Petty Cash Book of A & Co. The cashier, Mr. A, started with an imprest of Rs. 100 on 1st April, 1965 and was reimbursed the total amount expended at the end of the month :

1965			
April	2	Revenue stamps	Rs. 5·00
,,	5	Window cleaning	,, 2·50
,,	5	Office sweeper's salary	,, 10·00
,,	6	2 Boxes of clips	Re. 0·50
,,	8	Taxi fare to despatch clerk	Rs. 12·50
,,	10	1 Gross envelopes	,, 1·50
,,	10	Embossing address on envelopes	,, 2·00
,,	12	1 Box staples	Re. 0·35
,,	13	Taxi fare to Manager	Rs. 1·25
,,	15	Cable charges D & Co. Delhi	,, 1·75
,,	17	Cooly charges on 4 cases of Tea	,, 4·00
,,	18	Bottle ink	Re. 0·75
,,	20	Paid J.P. & Co	Rs. 4·50
,,	24	Paid for Classified Advertisement in Indian Express	,, 11·50
,,	26	Sent registered notice to a client	Re. 0·25
,,	29	Polishing office dining table	Rs. 1·50
,,	30	Advertisement in Evening News of India	,, 20·75
,,	30	Railway Fare—Manager to Poona for recovery outstandings	,, 12·50

(*I.I.B. Part I, February 1966*)

Solution :

COLUMNA ETTY CASH BOOK OF A & CO.

Amount Received	Date	Particulars	V. No.	Total Payments	Post-age & Tele-grams	Print-ing & Sta-tionery	Con-vey-ance	Cart-age	Adver-tisement	Sundry Expen-ses	Personal Accounts
					ANALYSIS OF PAYMENTS						
Rs. P.	1965			Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs P.	Rs. P.	Rs. P.	Rs. P.
100·00	Apr. 1	To Cash									
	,, 2	By Revenue stamps		5·00	5·00						
	,, 5	By Window cleaning		2·50						2·50	
	,, 5	By Sweeper's salary		10·00						10·00	
	,, 6	By 2 boxes of clips		0·50		0·50					
	,, 8	By Taxi fare to clerk		12·50			12·50				
	,, 10	By 1 Grs. envelopes		1·50		1·50					
	,, 10	By Embossing addresses on envelopes		2 00		2·00					
	,, 12	By 1 box staples		0·35		0·35					
	,, 13	By Taxi fare to Manager		1·25			1·25				
	,, 15	By Cable charges to Delhi		1·75	1·75						
	,, 17	By Cooly charges		4·00				4·00			
	,, 18	By Bottle of ink		0·75		0·75					
	,, 20	By J.P. & Co.		4·50							4·50
100·00		Total c/d		46·60	6·75	5·10	13·75	4·00	—	12·50	4·50

PETTY CASH BOOK

Amount Received	Date	Particulars	V. No.	Total Payments	ANALYSIS OF PAYMENTS: Postage & Telegrams	Printing & Stationery	Conveyance	Cartage	Advertisement	Sundry Expenses	Personal Accounts
				Rs.P.	Rs.P	Rs.P.	Rs.P.	Rs.P.	Rs.P.	Rs.P	Rs,P.
100 00	1965	Total b/fd.		46·60	6·75	5·10	13·75	4·00	—	12·50	4·50
	Apr. 24	By Advertisement in Indian Express		11·50					11·50		
	„ 26	By Postage charges for a registered notice		0·25	0·25						
	„ 29	By Polishing office dinning table		1·50						1·50	
	„ 30	By Advertisement in Evening News of India		20·75					20·75		
	„ 30	By Railway fare to Manager		12·50			12·50				
		Total Payaments		93 10	7·00	5·10	26·25	4·00	32·25		
	„ 30	By Balance c/d		6·90							
100·00		Totals		100·00							
	1965										
6 90	May 1	To Balance b/d									
93·10	May 1	To Cash									

E

BANK RECONCILIATION STATEMENT

Problem 1. What is a Bank Reconciliation Statement ? Explain the reasons on account of which the balance as shown by the Pass Book sometimes does not tally with the balance as shown by the Bank column of the Cash Book. How a Bank Reconciliation Statement is prepared ?

Solution. Every businessman who opens a current account in the Bank, he is given a Pass Book or a Statement of Account, which is a record of businessman's account in the bank's books. The credit side of this statement indicates the amounts deposited in the Bank and the debit side shows the amounts withdrawn therefrom.

The bank balance or bank overdraft as shown by this statement must be same. as the balance or overdraft shown in the bank column of the Cash Book, or in the Bank Account in the ledger of the trader.

It, however, very rarely happens in practice that the balance as shown by the Pass Book (Credit Balance) or Overdraft shown by it (Debit balance) agrees with the balance (Debit) or Overdraft (Credit) as shown in the Cash Book.

This difference may arise on account of the following reasons :

(I) **Unpresented Cheques.** Cheques may have been issued in payment of accounts due, but they may not have been presented for payment up to the date on which the two balances are compared. In effect, they are the entries which have been entered on the credit side of the Cash Book in the bank column and have not as yet been entered in the Pass Book. Hence, the Pass Book will show more balance or lesser overdraft as compared with the balance or overdraft shown by the Cash Book to the extent of the amount of such unpresented cheques.

(II) **Uncredited Cheques.** As soon as the cheques are paid into the Bank, the Bank Column in the Cash Book is debited. The Bank, however gives credit in the customer's account when it receives the amount of these cheques from the Bank upon which these are drawn. The effect of this will be that there will be no entry in the Pass Book and it will show lesser balance as compared with the bank balance shown by the Cash Book. In the case of overdraft, the Pass Book will show more overdraft than the amount shown by the Cash Book.

(III) **Excess Credits in the Pass Book.** Credits for certain items (Interest on deposits, dividend or interest or rent collected, direct payments made by customers, wrong credits, etc.) might have been given in the Pass Book, but no corresponding entry may have been made in the Cash Book resulting in excess balance (or less overdraft) as per Pass Book as compared to the balance (or overdraft) shown by the Cash Book.

(IV) **Excess Debits in the Pass Book.** Debits in the customer's account (Incidental charges, commission, exchange, insurance premium or subscriptions, etc., paid by the Bank as per the customer's standing instructions, bills or cheques dishonoured, interest on overdraft, wrong debits, etc.) might have been shown in the Pass Book, but no corresponding credit entry may have been made in the Cash Book. This will result

in lesser balance (or more overdraft) as shown by the Pass Book as compared with the balance (or overdraft) shown by the traders' books of accounts.

Hence, if any entry is only in the Pass Book, or only in the Cash Book, such transactions will affect the agreement of the balances shown by these books. To arrive at the balance of one book, from the other, a statement is prepared showing the reasons causing disagreement between the two. The statement is known as Bank Reconciliation Statement.

Preparation of a Bank Reconciliation Statement

A Bank Reconciliation Statement is drawn on the following lines :

(*a*) Entries appearing in the Bank Column of the Cash Book are compared with the entries on the opposite side of the Bank's Pass Book.

(*b*) The unticked entries in the Pass Book/Cash Book for the same periods, indicate the reasons for the disagreement.

(*c*) If the balance as per Pass Book is taken as the starting point, uncredited cheques and excess debits in the pass book are added to this balance ; and unpresented cheques and excess credits in the Pass Book are deducted from the given balance to arrive at the balance as shown by Cash Book.

(*d*) If the balance as per Cash Book is given, unpresented cheques and excess credits in the Pass Book are added to this balance ; and uncredited cheques and excess debits in the Pass Book are deducted. The resultant figure will be the balance as shown by the Pass Book.

(*e*) If the overdraft as shown by the Pass Book is taken as the starting point, unpresented cheques and excess credit in the Pass Book are added to the overdraft ; and uncredited cheques and excess debits in the Pass Book are deducted from the given overdraft to arrive at the figure of overdraft shown by the Cash Book

(*f*) If the overdraft as per Cash Book is taken, uncleared cheques and excess debits in the Pass Book will be added to the given figure of overdraft ; and uncredited cheques and excess credits given in the Pass Book are deducted. This will be the amount of overdraft as shown by the Pass Book.

Problem 2. From the following particulars prepare a Bank Reconciliation Statement as at 31st December, 1960

Balance as per Pass Book—Rs 6,240

Cheques issued but not presented

R & Co.	Rs. 459
S & Sons	*Rs. 596*
B. *Bros.*	Rs. 958.

Cheques deposited but not cleared until after close of the year :

J & Co.	Rs. 506
H Bros.	Rs. 913.

The banker had wrongly debited the account with Rs. *225*, which error was rectified by them on 4th January, 1961.

(*I.I.B. Part I, November 1966*)

Solution :

BANK RECONCILIATION STATEMENT
As on 31st December, 1960

Particulars		Plus Amount (Balance)	Minus Amount (Overdraft)
		Rs.	Rs.
Balance as per Pass Book		6,246	
Less : Cheques issued but not yet presented :			
R & Co.	Rs. 459		
S & Sons	Rs. 596		
B. Bros.	Rs. 958		2,013
Add : Cheques deposited but not yet cleared :			
J & Co.	Rs. 506		
H. Bros.	Rs. 913	1,419	
Add : Amount wrongly debited by the Bank in the Pass Book		225	
BALANCE AS PER CASH BOOK (*Balancing Figure*)			5,877
Total		Rs. 7,890	7.890

Problem 3. From the following particulars, prepare a Bank Reconciliation Statement as at 31st December, 1967. The Bank Pass Book showed a credit balance of Rs. 9,436 on that date.

(1) Out of the total cheques amounting to Rs. 1,536 issued during the month cheques of Rs. 496 were presented for payments in January 1968. One cheque of Rs. 50 issued to an upcountry party was lost in transit.

(2) The Bank had, in accordance with the standing instructions of the account holder, paid Life Insurance Premium of Rs. 427, for which no entry was made in his books.

(3) One of his customers directly deposited in the Bank Rs. 1,000 for which no entry is recorded in his books.

(4) A cheque for Rs. 579 was deposited in the bank on 15th December 1967 and the same was collected by the bank in due course, but the same was not recorded in the Cash Book.

(5). The Cash Book (bank column) did not show the bank charges debited by the Bank amounting to Rs. 12.

(*I.I.B. Part I, October 1968*)

Solution :

BANK RECONCILIATION STATEMENT

As on 31st December, 1967

Particulars	*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
	Rs.	Rs.
Balance as per Pass Book	9,436	
Less : (1) Cheques issued but not yet presented		496
Less : (1) Cheque issued but lost in transit		50
Add : (2) Life Insurance Premium paid by the bank as per standing instructions	427	
Less : (3) Amount deposited directly by a customer		1,000
Less : (4) Cheque deposited and collected by the bank but not entered in the Cash Book		579
Add : (5) Bank charges	12	
BALANCE AS PER CASH BOOK (*Balancing Figure*)		7,750
Total	Rs. 9,875	9,875

Problem 4. The following are the Cash Book and Bank Pass Book of Niranjan for the month of April, 1978 :

CASH BOOK (Bank Column)

Dr. Cr.

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Ch. No.*	*Amount*
1978		Rs.	1978			Rs.
April			April			
1	To Balance b/d	12,500	1	By Salaries A/c	183	4,000
4	To Sales A/c	8,000	6	By Purchases A/c	184	3,200
8	To Parimal A/c	1,500	11	By Machinery A/c	185	6,000
13	To Mahim A/c	3,400	11	By Om Prakash	186	1,000
	Total c/fd	25,400		Total c/fd		14,200

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Ch. No.	Amount
		Rs.				Rs.
1978	Total b/fd	25,400	1978	Total b/fd		14,200
April			April			
18	To Kamal A/c	4,600	19	By Drawings A/c	187	800
21	To Furniture A/c	1,200	23	By Kishore A/c	188	2,000
25	To Sales A/c	3,800	27	By Suresh A/c	189	1,000
30	To Firoz A/c	3,000	30	By Printing A/c	190	500
			30	By Balance c/d		19,500
	Total	Rs. 38,000		Total		Rs. 38,000

BANK PASS BOOK

Date	Particulars	Deposit	Withdrawal	Balance
1978		Rs.	Rs.	Rs.
April				
1	Balance			12,500
2	Cheque 183		4,000	8,500
6	Cheque	8,000		16,500
6	Cheque 184		3,200	13,300
10	Cheque	1,500		14,800
16	Cheque	3,400		18,200
17	Cheque 187		800	17,400
20	Cheque	4,600		22,000
24	Cheque	3,800		25,800
28	Cheque 185		6,000	19,800
28	Cheque 189		1,000	18,800
30	Interest	100		18,900
30	Deposit (K. Sen)	3,000		21,900
30	Charges		10	21,890

You are required to prepare a Bank Reconciliation Statement as on 30th April, 1978.

(I.I.B. Part I, August 1978)

Solution :

BANK RECONCILIATION STATEMENT OF NIRANJAN
As on 30th April, 1978

Particulars	*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
	Rs.	Rs.
Balance as per Cash Book	19,500	
Less : Cheques deposited but not yet cleared :		
Dated 21st for selling furniture		1,200
Dated 25th for sales		3,800
Dated 30th received from Firoz		3,000
Add : Cheques issued but not yet presented for payment :		
Dated 15th Ch. No. 186	1,000	
Dated 23rd Ch. No. 188	2,000	
Dated 30th Ch. No. 190	500	
Add : Direct Deposit in the account on 24th	3,800	
Add : Interest on Deposits credited by the Bank on 30th	100	
Add : Direct Deposit in the account by K. Sen on 30th	3,000	
Less : Bank Charges as on 30th		10
BALANCE AS PER PASS BOOK (*Balancing figure*)		21,890
TOTAL Rs.	29,900	29,900

Problem 5. On 31st December, 1964 the Bank Balance as per Cash Book of A Ltd. stood at Rs. 2,160. On scrutinising Bank Current A/c No. 1 with the Bank Pass Book, the Cashier noticed the following :

(1) A cheque of Rs. 80 drawn on No. 2 A/c had been wrongly debited to No. 1 A/c by the Bank.

(2). A cheque for Rs. 100 paid in No. 2 A/c had been wrongly credited to No. 1 A/c.

(3) A cheque for Rs. 60 paid in No. 1 A/c stands wrongly credited to No. 2 A/c.

(4) A dishonoured cheque for Rs. 40 relating to No. 1 A/c, the entry in respect of which had been passed through the C[illegible] stood wrongly charged to No. 2 A/c.

(5) Cheques for Rs. 240 paid in on 29th December stood credited in the Pass Book on 3rd January.

(6) Out of cheques amounting in all to Rs. 550 drawn and issued on 28th December, only cheques worth Rs. 220 had been cashed before 31st December.

(7) Bank charges amounting to Rs. 6 and bank interest Rs. 25 appearing in the Pass Book are not yet recorded in the Cash Book.

You are required to prepare a Bank Reconciliation Statement as at 31st December, 1964.

(I.I.B. Part I, Feburary 1966)

Solution :

BANK RECONCILIATION STATEMENT

of Current Account No. 1 of A. Ltd.

as on 31st December, 1964

Particulars		*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
		Rs.	Rs.
	Balance as per Cash Book	2,160	
Less : (1)	Amount wrongly debited by the Bank		80
Add : (2)	Amount wrongly credited by the Bank	100	
Less : (3)	Cheque deposited but not credited in the account		60
Add : (4)	Cheque dishonoured, not debited in the bank account	40	
Less : (5)	Cheques deposited but not yet cleared		240
Add : (6)	Cheques issued but not yet presented for payment	330	
Less : (7)	Bank charges		6
Add : (7)	Interest credited by the Bank	25	
	BALANCE AS PER PASS BOOK (*Balancing figure*)		2,269
	TOTAL Rs.	2,655	2,655

Problem 6. From the following extracts from the Cash Book and the Pass Book for the month of January, 1978, prepare the Bank Reconciliation Statement as on 31st January, 1978 :

CASH BOOK

Dr. Cr.

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1978		Rs.	1978		Rs.
Jan. 1	To Balance b/d	4,510	Jan. 2	By Gidwani & Co.	1,230
" 3	To Cash	300	" 6	By Wages	3,000
" 10	To G. Basu & Co.	1,000	" 14	By G. Basu & Co. (*Cheque dishonoured*)	1,000
" 15	To T. Mohan & Co.	2,300	" 15	By V. Kumar & Co.	300
" 17	To Cash	600	" 18	By S. Sharda & Sons	470
" 20	To M. Mohan & Bros.	1,550	" 24	By Cash	400
" 24	To T.P. Bhalla & Co.	740	" 28	By Ramesh & Co.	780
" 31	To S. Leader & Sons	2,130	" 31	By B. Bansal & Bros.	340
			" 31	By Balance c/d	5,610
		13,130			13,130

PASS BOOK

Date	*Particulars*	*Withdrawls*	*Deposits*		*Balance*
1978		Rs.	Rs.		Rs.
Jan. 1	By Balance			Cr.	4,510
" 3	By Cash		300	Cr.	4,810
" 6	To Selves—Cash	3,000		Cr.	1,810
" 10	To S. Gidwani & Co.	1,230		Cr.	580
" 16	By T. Mohan & Co.		2,300	Cr.	2,880
" 17	By Cash		600	Cr.	3,480
" 20	To S. Sharda & Sons.	470		Cr.	3,010
" 24	To Cash	400		Cr.	2,610
" 31	To Bank charges	10		Cr.	2,600
	To Life Insurance Premium (*as per instructions*)	250		Cr.	2,350
	By Interest on Government securities		300	Cr.	2,650

(*I.I.B. Part I, April 1980*)

Solution : BANK RECONCILIATION STATEMENT
as on 31st January, 1978

Particulars	*Plus Amount (Balance)* Rs.	*Minus Amount (Overdra[ft])* Rs.
Balance as per Cash Book	5,610	
Less : Cheques deposited but not yet cleared :		
On 20th of M. Mohan & Bros.		1,550
On 24th of T.P. Bhalla & Co.		740
On 31st of S. Leader & Sons.		2,130
Add : Cheques issued but not yet presented for payment :		
On 15th to V. Kumar & Co.	300	
On 28th to Ramdas & Co.	780	
On 31st to B. Bansal & Bros.	340	
Less : Bank charges as on 31st January		10
Less : Life Insurance Premium paid by the bank on 31st January (*as per instructions*)		250
Add : Interest on Government Securities credited by the Bank on 31st January	300	
BALANCE AS PER PASS BOOK		2,6
	7,330	7,3

Note : *Cheque received from G. Basu & Co. on 10th January is honoured on 14th January. The entry has its cancellation effect i[n] Cash Book itself.*

Problem 7 : From the following information given by Accountant, prepare a Bank Reconciliation Statement as on 31st D[ecem]ber 1980. Cash Book Balance Dr. Rs. 5,000.

1. The following cheques were issued, but not yet presen[ted for] payment :
   (a) Cheque in favour of Mr. Ram for Rs. 300 dated 29th D[ecember] 1980.
   (b) Cheque in favour of Mr. Rahim dated 31st December Rs. 750.

2. The following cheques were paid into the bank, c[...] credited by the bank on dates mentioned:
   (a) Cheque from Mr. John Rs. 1,000 cleared on 1st Janu[ary]
   (b) Cheque from Mr. Singh Rs. 750 cleared on 5th Janu[ary]

3. The Bank has, as per standing instruction paid insurance premium for Rs. 300 on 28th December 1980 and bank intimation was received on 5th January 1981.

4. The Bank has received from clients Rs. 3,500 being the collection on account on 26th December 1980, but credit intimation was received on 10th January 1981 only.

5. Bank charged Rs. 50 towards Ledger Folio charges on 30th December 1980.

6. The Bank had credited our account with Rs. 10,000 on 28th December 1980 wrongly due to some other clients and reversed it on 28th January 1981. *(I.I.B. Part I, May 1981)*

Solution : BANK RECONCILIATION STATEMENT

as on 31st December, 1980

Particulars		*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
		Rs.	Rs.
Balance as per Cash Book		5,000	
Add : (1) Cheques issued but not yet presented for payment :			
(a) Cheque in favour of Ram dated 29.12.1980	Rs. 300		
(b) Cheque in favour of Rahim dated 31.12.1980	Rs. 750	1,050	
Less : (2) Cheques deposited into Bank, but not yet cleared and credited into the account :			
(a) From Mr. John	Rs. 1,000		
(b) From Mr. Singh	Rs. 750		1,750
Less : (3) Insurance Premium paid by the Bank, as per standing instructions			300
Add : (4) Direct collections by the Bank from clients on 26.12.1980		3,500	
Less : (5) Bank charges as on 30.12.1980			50
Add ; (6) Wrong credit given by the Bank in the account on 28.12.1980		10,000	
BALANCE AS PER PASS BOOK (*Balancing figure*)			17,450
		19,550	19,550

Problem 8. The Pass Book of Messers. Big & Small, Zhaveri Bazar, Bombay in account with State Bank of India, Bombay.

Date		*Particulars*	*Withdrawls*	*Deposits*	*Dr. or Cr.*	*Balance*
1982			Rs.	Rs.		Rs.
January	2	By Cash		4,000	Cr.	4,000
January	4	To Furniture Dealers Ltd.	600		Cr.	3,400
January	4	To Dass & Co.	1,250		Cr.	2,150
January	10	By J. Johnson & Co's cheque		350	Cr.	2,500
January	12	To Roy & James	1,000		Cr.	1,500
January	15	By B. Babu & Co's cheque		760	Cr.	2,260
Jannary	16	By Cash		300	Cr.	2,560
January	20	To Cash	500		Cr.	2,060
January	26	By J. Roy & Bros. cheque		430	Cr.	2,490
January	31	To Premium paid as per standing instructions	250		Cr,	2,240
		To Bank charges	10		Cr.	2,230
		By interest collected on Government Securities		200	Cr.	2,430

CASH BOOK (Bank Columns only)

Date		*Particulars*	*Amount*	*Date*		*Particulars*	*Amount*
1982			Rs.	1982			Rs.
January	2	To Cash	4,000	January	2	By Furniture Dealers Ltd.	600
January	8	To J. Johnson & Co.	350	January	2	By Roy & James	1,000
January	10	To B. Babu & Co.	760	January	4	By Dass & Co.	1,250
January	16	To Cash	300	January	17	By K. Nagpal & Co.	730
January	20	To J. Rai & Bros.	430	January	20	By Cash	500
January	22	To M. Mohan & Co.	1,050	January	25	By B. Babu & Co.	780
January	31	To N. Nandy & Sons	340	January	31	By Balance c/d	2,370
			7,230				7,230
February	1	To Balance b/d	2,370				

From the above, prepare a Bank Reconciliation Statement as at 31st January, 1982.

(*I.I.B. Part I, May 1982*)

Solution:

BANK RECONCILIATION STATEMENT
OF M/s BIG & SMALL,
Zhaveri Bazar, Bombay
With State Bank of India, Bombay
as on 31st January, 1982

	Particulars	*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
		Rs.	Rs.
	Balance as per Cash Book	2,370	
Less :	Cheques deposited but not yet credited :		
	Deposited on 22.1.82 of M. Mohan & Co.		1,050
	Deposited on 31.1.82 of N. Nandy & Sons		340
Add :	Cheques issued but not yet presented for payment :		
	Issued on 17.1.82 to K. Nagpal & Co.	730	
	Issued on 25.1.82 to B. Babu & Co.	780	
Less :	Premium paid by Bank on 31.1.82 as per standing instructions		250
Less :	*Bank charges as on 31.1.82*		10
Add :	Interest collected by Bank on Govt Securities.	200	
	BALANCE AS PER PASS BOOK *(Balancing figure)*		2,430
		4,080	4,080

Problem From the following entries in the bank column of the Cash Book of Mr. K. Katrak and the corresponding Bank Pass Book, prepare Reconciliation Statement as on 31st March, 1979 :

CASH BOOK (Bank Column only)

Date	Particulars	Amount	Date	Particulars	Amount
1979		Rs.	1979		Rs.
March 1	To Balance	3,400	March 7	By Drawings	1,500
,, 10	,, Madan & Sons	500	,, 8	,, Salary	2,200
,, 13	,, Jerbai	4,000	,, 15	,, Ardesar & Co.	3,000
,, 18	,, Cawasji & Co.	1,200	,, 28	,, Merwan Bros.	1,550
,, 28	,, Dinshaw & Co.	2,200	,, 29	,, Raj & Sons	800
,, 29	,, Dhanbura Co.	5,700	,, 30	,, Macmillon Radios	400
,, 31	,, Antony	3,425	,, 31	,, Chandu, H	1,600
			,, 31	,, Balance	9,375
		20,425			20,426

BANK PASS BOOK
(Mr. Katrak in Account with Central Bank)

Date	Particulars	Amount	Date	Particulars	Amount
1979		Rs.	1979		Rs.
April 1	To Balance (overdraft)	750	April 2	By Dividends	500
,, 2	,, Raj & Sons	800	,, 2	,, Dinshaw & Co.	2,200
,, 4	,, Macmillon Radios	400	,, 3	,, Hosang	200
,, 8	,, Salary	2,300	,, 3	,, Dhanbura Co.	5,700
,, 10	,, Drawings	500	,, 5	,, Antony	3,425
,, 10	,, Antony (cheque dishonoured)	3,525	,, 10	,, Romy	170

Solution : (*I.I.B. Part I, November 1979*)

BANK RECONCILIATION STATEMENT OF MR. KATRAK
as on 31st March, 1979

Particulars	*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
	Rs.	Rs.
Balance as per Cash Book	9,375	
Add : Cheques issued but not yet presented for payment :		
Raj & Sons dated 29th March	800	
Macmillon Radios dated 30th March	400	
Less : Cheques deposited into the Bank, but not yet credited into the account :		
Dinshaw & Co. on 28th March		2,200
Dhanbura Co. on 29th March		5,700
Antony on 31st March		3,425
Overdraft as per Pass Book	750	
	11,325	11,325

Problem 10. From the following entries in the bank column of the Cash Book of Mr. A and corresponding bank pass book, prepare a Bank Reconciliation Statement as on 31st March, 1972 :—

CASH BOOK (Bank Column)

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Cheque No.*	*Amount*
1972 Mar.		Rs.	1972 Mar.			Rs.
1	To Balance	3,400	5	By Drawings	526	1,500
10	To M. Das—Cheque	500	8	By Salaries	527	2,200
13	To J. Dey—Cash	4,000	15	By Purchases	528	3,000
18	To C. Lal—Cheque on		20	By R. Bros.	529	1,550
	Delhi	1,200	29	By House Rent	530	800
20	To A. Bomen—Cheque	2,200	30	By K. Bros.	531	400
29	To D. Bose—Cheque	5,700	31	By N. Koomar	532	1,600
31	To A Jeewan—Cheque	3,425		By Balance		9,375
		20,425				20,425

BANK PASS BOOK

A in accountwise

Date	Withdrawls	Cheque No.	Amount	Date	Deposits	Amount
			Rs.			Rs.
1972				1972		
April				April		
1	To Balance (over-draft)		350	1	By Dividend	750
2	To C. Ramdas	530	800	3	By A. Boman	2,200
4	To K. Bros.	531	400	4	By J. Jeewan	400
8	To Self	534	2,200	7	By D. Bose	5,700
10	To Self	535	700		By A. Jeewan	3,425
12	To N. Koomar	532	1,600	11	By C. Lal—Cheque on Delhi cleared *less* charges	1,198
15	To Balance c/d		8,323	15	By Intr. on G.P. Note	700
			14,373			14,373
				16	By Balance b/d	8,323

(*I.I.B. Part I, October 1972*)

Solution :

BANK RECONCILIATION STATEMENT OF MR. A

as on 31st March, 1972

Particulars	Plus Amount (Balance)	Minus Amount (Overdraft)
	Rs	Rs.
Balance as per Cash Book	9,375	
Add : Cheques issued but not yet presented for payment :		
Cheque No. 530 dated 29th	800	
Cheque No. 531 dated 30th	400	
Cheque No. 532 dated 31st	1,600	
Less : Cheques deposited into the Bank, but not yet credited into the account :		
Cheque received on 20th from A. Boman		2,200
Cheque received on 29th from D. Bose		5,700
Cheque received on 31st from A. Jeewan		3,425
Cheque received on 18th from C. Lal		1,200
OVERDRAFT AS PER PASS BOOK	350	
	12,525	12,525

Problem 11. On 31st March 1976, there was a balance of Rs. 8,900 in the Bank Account of Mr. Banke as per his Cash Book (Bank Column). *It was subsequently discovered that*—

(*a*) The receipt side of the Bank Column of the Cash Book had been overcast by Rs. 2,000.

(*b*) Cheques amounting to Rs. 7,520 were deposited and entered in books but not cleared.

(*c*) Cheques issued amounting to Rs. 10,460 have not been presented.

(*d*) Discount allowed Rs. 220 has been entered in the bank column instead of the discount column.

(*e*) A credit note of Rs. 580 received in March 1976 has not been entered in the books.

You are required to prepare the Bank Reconciliation Statement, so as to show the bank balance as per bank statement.

(I.I.B. Part I, May 1976)

...on :

BANK RECONCILIATION STATEMENT OF MR. BANKE
as on 31st March, 1976

Paticulars	Plus Amount (Balance) Rs.	Minus Amount (Overdraft) Rs.
Balance as per Cash Book	8,900	
Less : (*a*) Difference in the Bank column of the Cash Book		2,000
Less : (*b*) Cheques deposited into the bank, but not yet cleared		7,520
Add : (*c*) Cheques issued but not yet presented for payment in the bank	10,460	
Less : (*d*) Excess debit in the bank column of the cash book, because discount allowed has been entered in the bank column instead of discount column		220
Add : (*e*) Credit note received and deposited into the Bank, but not entered in the cash book	580	
BALANCE AS PER PASS BOOK (*Balancing figure*)		10,200
	19,940	19,940

Note : *For Item No. (e) above* :

It is assumed that the credit note received in March 1976 is sent f... collection and is collected by the Bank before 31 March, 1976.

Problem 12. On 31st June, 1976 my Pass Book showed an ov... draft of Rs. 7,500. Cheques amounting to Rs. 1,000 had been paid before the above date, but of these only Rs. 750 were credited to the B... Book. A cheque for Rs. 60 which I had debited to the Bank Acc... in my books was left off to be sent to Bank. I had issued che... amounting to Rs. 2,500 out of which Rs. 2,000 worth only seem to been presented. A sum of Rs. 75 was debited by bank on accou... interest.

A customer had directly deposited Rs. 300 in my bank accou... for this no entry was passed by me.

Prepare a Reconciliation Statement. (*I.I.B. Part I, Novemb...*

Solution :

BANK RECONCILATION STATEMENT

As on 30th June, 1967

	Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
		Rs.	Rs.
	Overdraft as per Pass Book		7,500
Less :	Cheques deposited into the Bank but not yet credited into the acoount	250	
Less :	Cheque entered in Cash Book but omitted to be sent to Bank	60	
Add :	Cheques issued but not yet presented for payment		500
Less :	Interest on overdraft charged by the Bank	75	
Add :	Amount directly deposited by a customer in the Bank, not entered in the Cash Book		300
	OVERDRAFT AS PER CASH BOOK (*Balancing figure*)	7,915	
		8,300	8,300

Problem 13. On 31st December 1970, my Pass Book No. 1 showed an overdraft of Rs. 9,500. Out of cheques of Rs. 4,500 paid in on 28th December, Rs. 2,000 appear to have been credited on 3rd January, 1971.

Out of cheques amounting to Rs. 8,000 issued during the month of December, cheques worth Rs. 4,500 appear to have been presented before 31st December, 1970. Inadvertantly, the Bank has credited a sum of Rs. 1,000 to my account which belonged to some other account. Interest on overdraft debited by Bank was Rs 500. This was subsequently entered by me in the book. My bank account showed a credit for Rs. 600 for interest on securities collected by it.

Prepare a Reconciliation Statement as on 31st December, 1970.

(*I.I.B. Part I. May 1971*)

Solution :

BANK RECONCILIATION STATEMENT

as on 31st December, 1970

	Particulars	*Minus Amount (Balance)*	*Plus Amount (Overeraft)*
		Rs.	Rs.
	Overdraft as per Pass Book		9,500
Less :	Cheques deposited into the bank but not yet credited	2,000	
Add :	Cheques issued but not yet presented for payament in the bank		3,500
Add :	Amount wrongly credited by the Bank in the account		1,000
Add :	Interest on securities collected by the Bank		600
Less :	Interest on overdraft charged by the bank	500	
	BANK OVERDRAFT AS PER CASH BOOK (*Balancing figure*)	12,100	
		14,600	14,600

Problem 14. From the following particulars, prepare a Bank Reconciliation Statement :

Balance as per Pass Book 31st December, 1973 overdrawn Rs 10,260. Cheques drawn on 31st December, but not cleared till January, 1974 Rs. 120, Rs. 1,025, Rs. 980 and Rs. 1,120.

Interest on overdraft debited by Bank Rs. 526 not entered in Cash Book.

Sum received on 30th December, 1973 but not lodged in Bank till 3rd January, 1973 Rs. 2,500.

Bank charges Rs. 10 entered in the Cash Book twice in error and an other item of Bank charges of Rs. 15 omitted to be entered in the Cash Book.

Bill receivable for Rs. 500 due on 29th December 1973 was passed to the Bank for collection on 28th December, 1973 and was entered in the Cash Book forthwith, whereas the preceeds were not credited in the Bank Pass Book till January, 1974.

A wrong debit of Rs. 1,500 was given in the bank pass book which was reversed by the Bank in January 1974.

Under standing instructions Bank had paid Rs. 150 as subscription to a local society, which was left off to be entered in the Cash Book.
(I.I B. Part I, May 1974)

Solution :

BANK RECONCILIATION STATEMENT
as on 31st December, 1973

	Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
		Rs.	Rs.
	Overdraft as per Bank Pass Book		10,260
Add :	Cheques drawn but not yet presented for payment :		
	(1)		120
	(2)		1,025
	(3)		980
	(4)		1,120
Less :	Interest on overdraft charged by the Bank not entered in the Cash Book	526	
Less :	Amount received and entered in the Cash Book but not yet deposited in the Bank	2,500	
Add :	Bank charges entered twice in the Cash Book		10
Less :	Bank charges not yet recorded in the Cash Book	15	
Less :	Bill Receivable sent for collection to the bank and entered in the Cash Book, but the proceeds not yet credited in the Pass Book	500	
Less :	Amount wrongly debited by the bank in the Pass Book	1,500	
Less :	Subscriptions paid by the bank under standing instructions but the amount not entered in the Cash Book	150	
	BANK OVERDRAFT AS PER CASH BOOK *(Balancing figure)*	8,324	
		13,515	13,515

Problem 15. From the following particulars taken on 31st December, 1974 from the books of Advani & Co., prepare a Bank Reconciliation Statement to reconcile bank balance shown in the cash book with that shown in the pass book :

(1) The Bank Pass Book shows an amount of Rs. 10,036 due to the bank from Advani & Co.

(2) Three cheques of Rs. 135, Rs. 989 and Rs. 2,735 drawn in favour of creditors and handed over to them on 29th December 1974, were cleared only after 5th January, 1975.

(3) Two cheques of Rs. 6.534 and of Rs. 2,080 were deposited in the bank on 29th December 1974. but were cleared on 7th January, 1975.

(4) Interest charged by the Bank to the extent of Rs. 87 was not entered in the cash book.

(5) In accordance with the standing instruction of the client, the Bank had paid Rs. 250 subscription for a club and Rs. 1,527 Life Insurance Premium for which no entries are found in the cash book.

(6) The Bank had collected dividend of Rs. 900 on behalf of the client on the shares of M/s Hindustan Silk Mills Ltd., for which no entry was made in the cash book.

(7) One cheque of Rs. 2,634 deposited in the bank on 15th December. 1974 and duly accounted for in the pass book was not entered in the cash book.

(*I.I.B. Part I, November 1975*)

Solution:

BANK RECONCILIATION STATEMENT OF ADVANI & CO.
as on 31st December, 1974

	Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
		Rs.	Rs.
	Bank Overdraft as per Pass Book		10,036
Add :	Cheques issued but not yet presented for payment in the bank :		
	(1)		135
	(2)		989
	(3)		2,735
Less :	Cheques deposited into the bank, but not yet credited into the account :		
	(1)	6,534	
	(2)	2,080	
Less :	Interest on overdraft charged by the bank but not yet entered in the cash book	87	
	Totals c/fd	8,701	13,895

		Rs.	Rs.
	Totals b/fd	8,701	13,895
Less :	Payments made by the bank as per the standing instructions, but not entered in the cash book :		
	Subscriptions for a club	250	
	Life Insurance Premium	1,527	
Add :	Dividend on the Shares of M/s Hindustan Silk Mills Ltd., collected by the bank, but not recorded in the cash book.		900
Add :	Cheque deposited into the bank and credited into the account, but not entered in the cash book.		2,634
	BANK OVERDRAFT AS PER CASH BOOK (*Balancing figure*)	6,951	
	9-15	17,429	17,429

Problem 16. *Fom the following particulars, prepare a Bank Re*conciliation Statement of Alpha Electric Motors Private Ltd. as on 30th September 1976 :

(*a*) Overdraft on 30th September 1976 as per bank pass book Rs. 10,000.

(*b*) Cheque deposited in the bank but not recorded in cash book Rs. 100.

(*c*) Cheque received and recorded in the bank column but not sent to bank for collection Rs. 1,000.

(*d*) Several cheques were drawn in the last week of September, totalling Rs. 15,000. Of these, cheques totalling only Rs. 9,000 were cashed before 30th September.

(*e*) Similarly, several cheques, totalling Rs. 9,000 were sent for collection. Of these, cheques of the value of Rs 1,500 were credited on 5th October and Rs. 2,000 on 7th October, the balance being credited before 30th September.

(*f*) *On 11th September 1976, the credit side of the bank column* of the cash book was cast Rs. 1,000 short and the credit balance of Rs. 2,600 on 15th September 1976 was brought forward on 16th September 1976 as debit balance of Rs. 2,600.

(*g*) Fees of Rs. 250 were paid directly by the bank but was not recorded in the Cash Book.

(*h*) In the Cash Book, a bank charge of Rs. 30 was recorded twice while another bank charge of Rs. 50 was not recorded at all.

(*i*) Interest of Rs. 1,400 was charged by the bank but was not recorded in the Cash Book.

(*I.I.B. Part 1, October 1976*)

Solution:

BANK RECONCILIATION STATEMENT OF
ALPHA ELECTRIC MOTORS PVT. LTD.
as on 30th September, 1976

		Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
			Rs.	Rs.
	(*a*)	Overdraft as per Pass Book		10,000
Add :	(*b*)	Cheque deposited into the Bank but not recorded in the Cash Book		100
Less :	(*c*)	Cheques received and recorded in the Cash Book, but not yet deposited in the Bank	1,000	
Add :	(*d*)	Cheques issued but not yet presented for payment		6,000
Less :	(*e*)	Cheques deposited into the Bank, but not yet credited in the account :		
		(1)	1,500	
		(2)	2,000	
Less :	(*f*)	Credit side of the Cash Book cast short on 11th September	1,000	
Less :	(*f*)	Credit balance of Cash Book on 15th for Rs. 2,600, brought forward on 16th as debit balance of Rs. 2,600	5,200	
Less :	(*g*)	Fees directly paid by the bank not recorded in the Cash Book	250	
Add :	(*h*)	Bank charges recorded twice in the Cash Book		30
Less .	(*h*)	Bank charges not recorded in the Cash Book	50	
Less :	(*i*)	Interest on overdraft charged by the bank, but not recorded in the Cash Book	1,400	
		BANK OVERDRAFT AS PER CASH BOOK (*Balancing figure*)	3,730	
			16,130	16,130

Problem 17. The following is the summary from the cash book (bank columns only) of M/s BRS Ltd. for the month of October, 1977 :

	Rs.		Rs.
To Balance b/d	14,070	By Payments	1,55,200
To Receipts	1,50,730	By Balance c/d	9,600
	1,64,800		1,64,800

On scrutiny of the bank statements you find that :

(*a*) The bank statement shows an overdrawn balance of Rs. 1,240.

(*b*) Bank charges of Rs. 350 shown on the bank statement have not been entered in the cash book.

(*c*) A cheque drawn for Rs. 470 has been entered as a receipt.

(*d*) A cheque for Rs. 180 has been returned by the bank, but not written back in the cash book.

(*e*) The opening balance should have been carried down as Rs. 14,700.

(*f*) Three cheques paid to suppliers for Rs. 2,140, Rs. 3,700 and Rs. 300 have not yet been presented to the bank.

(*g*) The last pay-in-slip of the month showing a deposit of Rs. 15,420 has not yet been credited by the bank.

(*h*) The bank has debited a cheque for Rs. 720 by mistake to the company's account.

You are required to :

(*i*) Re-write the cash book for the month of October, 1977 ; and

(*ii*) Prepare a statement reconciling the adjusted balance in the Cash Book with the balance as per the bank statement.

(*I.I.B. Part I, November 1977*)

Solution :

CORRECTED CASH BOOK OF M/S BRS LTD.
for the month of October, 1977

Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To Balance b/d (e)		14,700	By Payments : Given	1,55,200	
To Receipts : Given	1,50,730		*Add* : Cheque issued wrongly entered as a receipt (c)	470	1,55,670
Less : Cheque issued wrongly entered as a receipt (c)	470	1,50,260	By Balance c/d (*Balancing figure*)		9,290
		1,64,960			1,64,960

(ii) BANK RECONCILIATION STATEMENT OF M/s. BRS LTD.
as on 31st October, 1977

	Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
		Rs.	Rs.
(a)	Bank Overdraft as per Pass Book		1,240
Less : (b)	Bank charges not recorded in the Cash Book	350	
Less : (d)	Cheque dishonoured but not recorded in the Cash Book	180	
Add : (f)	Cheques issued but not presented for payment in the bank :		
	(1)		2,140
	(2)		3,700
	(3)		300
Less : (g)	Amount deposited into the bank, but not yet credited in the account	15,420	
Less : (h)	Wrong debit given by the bank in the bank account	720	
BALANCE AS PER CASH BOOK			9,290
		16,670	16,670

Problem 18. From the following particulars, ascertain the bank balance as would appear in the Pass Book of Shri Himat as at 31st March 1969 :

(1) The Bank overdraft as per cash book on 31st March 1969, was Rs. 12,000.

(2) Interest on overdraft for six months ending 31st March 1969, debited by bank is Rs. 400.

(3) Bank charges for the above period also debited in the pass book amounted to Rs. 100.

(4) Cheques issued, but not cashed, prior to 31st March 1969, amounted to Rs. 4,000.

(5) Cheques paid into bank, but not cleared and credited before 31st March 1969, were Rs 6,000.

(6) Interest on Investments collected by the Bankers and credited in the Pass Book amounted to Rs. 3,500.

(I.I.B. Part I. November 1969)

:

NK RECONCILIATION STATEMENT OF SHRI HIMAT
as on 31st March, 1969

Particulars	Minus Amount (Balance)	Plus Amount (Overdraft)
	Rs.	Rs.
(1) Bank Overdraft as per Cash Book		12,000
: (2) Interest on Overdraft charged by the bank, but not entered in the Cash Book		400
d : (3) Bank charges debited in the account but not entered in the Cash Book		100
ess : (4) Cheques issued but not yet presented for payment in the bank	4,000	
Add : (5) Cheques paid into the bank, but not cleared and credited by them		6,000
Less : (6) Interest on investments collected by the bank and credited into the account, but not recorded in the Cash Book	3,500	
BANK OVERDRAFT AS PER PASS BOOK (*Balancing figure*)	11,000	
	18,500	18,500

Problem 19. Prepare a Bank Reconciliation Statement from the following particulars :

	Rs.
Bank overdraft as per cash book	8,000
Cheque deposited in bank but no entry was passed in the cash book	300
Cheques received but not sent to Bank	1,000
Credit side of Bank column cast short	10
Insurance premium paid directly by bank under standing advice	5
Bank charges entered in cash book twice	4
Cheques returned back but no entry passed	2
Cheques "issued" returned back on account of technical grounds	
Bills directly collected by bank	
Bank charge debited by bank	
Cheque received entered twice	
Bills discounted dishonoured	

State which items will require adjustment in the books of acco

(I I.B. Part I, May

Solution:

BANK RECONCILIATION STATEMENT

as on....... ....

	Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
		Rs.	Rs.
	Bank Overdraft as per Cash Book		8,000
Less :	Cheques deposited into the Bank, but not entered in the Cash Book	300	
Add :	Cheques received and entered in the Cash Book but not sent to bank		1,000
Add :	Amount of short-casting of the credit side of the Cash Book		100
Add :	Insurance premium directly paid by the bank under standing advice, but not recorded in the Cash Book		500
Less :	Bank charges entered twice in Cash Book	10	
Add :	Cheques returned dishonoured by the bank but not recorded in the Cash Book		400
Less :	Cheques issued returned back on account of technical grounds	300	
Less :	Bills collected by the bank, but not recorded in the Cash Book	2,000	
Add :	Bank charges not recorded in the Cash Book		12
Add :	Cheques received entered twice in the Cash Book		500
Add :	Bills discounted dishonoured		4,000
	BANK OVERDRAFT AS PER PASS BOOK (*Balancing figure*)	11,902	
		14,512	14,512

Notes. The undernoted items will require adjustments in the books of accounts:

1. Cheques deposited in bank but no entry was passed in the Cash Book.

An entry will be passed in the bank column on the debit side of the Cash Book, crediting therein the accounts of the persons who have given the cheques.

2. Cheques received but not sent to bank.

heques will be sent to Bank. They have already been entered in the ook.

3. Credit side of the Bank column cast short.

Rectifying entry will be passed to correct the mistakes by debiti uspense Account and crediting the Bank Account.

4. Insurance Premium directly paid by bank under standing ad

An entry in this regard will be passed on the credit side of the Cash ok and the amount will be entered in the bank column.

5. Bank charges entered twice in Cash Book.

An entry for the amount of Bank Charges will be passed on the debit side of the Cash Book.

6. Cheques returned back but no entry passed.

The parties whose cheques have been returned dishonoured will be debited through the Cash Book.

7. Cheques issued returned back on account of technical grounds.

The parties to whom the cheques were issued will be credited through the Cash Book.

8. Bills directly collected by Bank.

The amount will be entered on the debit side of the Cash Book.

9. Bank Charges debited by Bank.

The amount will be entered on the credit side of the Cash Book.

10. Cheques entered twice.

The amount will be debited in the accounts of the persons who have given cheques and the corresponding credit will be given to the Bank Account.

11. Bill discounted dishonoured.

The account of the acceptor of the bills will be debited and Ba account will be credited with the amount.

Problem 20. Mr. Banker is having two accounts (I and II) w India Bank, on 31st December 1980, his ledger shows a balance Rs. 5,000 in Account I and an *overdraft* of Rs. 2,250 in Account II. verification of the ledger entries with the respective bank statements following mistakes were found :—

(*a*) A deposit of Rs. 15,000 made into Account I on 20th D has been entered in the ledger in Account II.

(*b*) A withdrawal of Rs. 5,000 from Account I on 2nd No ber 1980, has been entered in the ledger in Account II.

(c) Two cheques of Rs. 5,000 and Rs. 7,500 deposited in Account I on 1st December, 1980 (and entered in the books in Account II), have been dishonoured by the Banks. The entries for dishonour of these cheques have been entered in the books in Account II.

(d) Mr. Banker has issued cheques, on 29th December 1980, of Rs. 10,000 from Account I and for Rs. 1,000 from Account II. These cheques were not encashed till 2nd January 1981.

(e) Incidental charges of Rs. 10 and Rs. 25 charged in Account I and II respectively have not been entered in the books.

(f) Deposits of Rs. 5,000 and Rs. 3,500 made into the Accounts of I and II respectively, on 30th December 1980, have not been given credit by Bank till 5th January 1981.

Prepare Bank Reconciliation statement as on 31st December 1980, for the above *two* accounts.

(I.I.B. Part 1, November, 1981)

Solution:

(ii) BANK RECONCILIATION STATEMENT
ACCOUNT No. I OF Mr. BANKER WITH INDIA BANK
as on 31st December, 1980

		Particulars	*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
			Rs.	Rs.
		Balance as per Ledger Account I	5,000	
Add :	(a)	Deposit into this account, wrongly entered in Account II in the ledger	15,000	
Less :	(b)	Withdrawl from the account, wrongly entered in Account II in the ledger		5,000
Add :	(d)	Cheques issued on 29.12.1980, but not yet presented for payment	10,000	
Less :	(e)	Incidental charges of the Bank		10
Less :	(f)	Deposits on 30.12.1980, not yet credited into the account		5,000
BALANCE AS PER PASS BOOK (*Balancing figure*)				19,990
			30,000	30,000

(iii) BANK RECONCILIATION STATEMENT
UNT No. II OF Mr. BANKER WITH INDIA BANK
as on 31st December, 1980

Particulars	Minus Amount (Balance)	Plus Amount (Overdraft)
	Rs.	Rs.
Overdraft as per Ledger Account II		2,250
: (a) Deposit into Account I, wrongly entered in the account in the ledger		15,000
: (b) Withdrawl from Account I, wrongly entered in the account in the ledger	5,000	
ss : (d) Cheques issued on 29.12.1980, but not yet presented for payment	1,000	
dd : (e) Incidental charges of the Bank		25
Add : (f) Deposits on 30.12.1980, not yet credited into the account		3,500
OVERDRAFT AS PER PASS BOOK (Balancing figure)	14,775	
	20,775	20,775

Note : *Cheques for Rs. 12,500 (Rs. 5,000+Rs. 7,500) deposited in Account I wrongly recorded in the books in Account II. These were dishonoured and entries for dishonour of these cheques were also recorded in Account II. Therefore, these entries will not have any affect on the Bank Reconciliation Statements.*

Problem 21. Janardan & Co., have bank accounts with two banks *viz.*, Dena Bank and Bank of India. On 31st December 1978, his Cash Book (bank columns) shows balance of Rs. 5,000 with Dena Bank and overdraft of Rs. 2,250 with Bank of India. On further verification, the following facts were discovered :

(a) A deposit of Rs. 1,500 made in Dena Bank on 28th December 1978, has been entered in the column for Bank of India.

(b) A withdrawl of Rs. 500 from Bank of India on 2nd Novembe[r] 1978, has been entered in the column for Dena Bank.

(c) Two cheques of Rs. 500 and Rs. 750 deposited in Dena Ba[nk] on 1st December 1978, (and entered in the Bank of In[dia] column) have been dishonoured by the bankers. The ent[ries] for dishonour have been made in the Bank of India colum[n]

(d) Cheques were issued on 29th December 1978, on Dena B[ank]

and Bank of India of Rs. 10,000 and Rs. 1,000 respectively. These have not been cashed till 31st December 1978.

(e) Incidental charges of Rs. 10 and Rs. 25 charged by Dena Bank and Bank of India respectively, have not been entered in the books.

(f) Dena Bank has credited an interest of Rs. 50 and Bank of India has charged interest of Rs. 275. These have not been recorded in the books.

(g) The deposits of Rs. 5,000 and Rs. 3,500 made into Dena Bank and Bank of India respectively have not yet been given credit to by them till 31st December 1978.

Draw up the *two* Bank Reconciliation Statements.

(*I.I B. Part I, April 1979*)

Solution :

(i) BANK RECONCILIATION STATEMENT OF JANARDAN & COMPANY WITH DENA BANK

as on 31st December, 1978

		Particulars	*Plus Amount (Balance)*	*Minus Amount (Overdraft)*
			Rs.	Rs.
		Balance as per Cash Book	5,000	
Add :	(a)	Amount deposited in Dena Bank wrongly recorded in the column for Bank of India	1,500	
Add :	(b)	Amount withdrawn from Bank of India wrongly entered in the column for Dena Bank	500	
Add :	(d)	Cheques issued but not cashed from the Bank	10,000	
Less :	(e)	Bank's incidental charges		10
Add :	(f)	Interest credited by the Bank	50	
Less :	(g)	Deposits into the Bank, not yet credited into the account		5,000
		BALANCE AS PER PASS BOOK		12,040
			17,050	17,050

Working note : (c) *Two cheques of Rs. 1,250 (Rs 500 + Rs. 750) deposited in Dena Bank but dishonoured by them will have no effect on the Bank Reconciliation Statement, because both the entries, i.e., for deposit as well as for dishonour of cheques have been recorded in the Bank of India column.*

(ii) BANK RECONCILIATION STATEMENT
OF JANARDAN AND COMPANY WITH BANK OE INDIA
as on 31st December, 1978

Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft)*
	Rs.	Rs.
Bank overdraft as per Cash Book		2,250
: (a) Amount of deposit in Dena Bank wrongly recorded in the column for Bank of India		1,500
: (b) Withdrawl from Bank of India wrongly entered in the column for Dena Bank		500
: (d) Cheques issued but not yet cashed from the Bank	1,000	
: (e) Bank's incidential charges		25
: (f) Interest on overdraft charged by the Bank		275
: (g) Deposits into the Bank, not yet credited into the account		3,500
OVERDRAFT AS PER PASS BOOK	7,050	
	8,050	8,050

Problem 22. From the following information available from the ...ks and records of Daftri Brothers prepare Bank Reconciliation ...tements:—

	Bank A/c No. I	*Bank A/c No. II*
	Rs.	Rs.
1. Balance at end of month as per Cash Book	(*Dr.*) 50,000	(*Cr.*) 1,80,000
2. Cheques issued but not presented at end of the month	39,300	21,500
3. Cheques deposited for collection not cleared till end of month		47,500
4. Interest not adjusted in Cash Book		2,500
5. Cheques issued against A/c No. II wrongly debited by Bank to A/c No. I.		1,800

(*I.I.B. Part I, Nov. 1982*)

Solution:

(i) BANK RECONCILIATION STATEMENT OF DAFTARI BROTHERS BANK A/c NO. I

as on... ....

Particulars	*Plus* *Amount* *(Balance)*	*Minus* *Amount* *(Overdraft)*
	Rs.	Rs.
Balance as per Cash Book	50,000	
Add : Cheques issued but not yet presented for payment in the bank	39,300	
Less : Cheques issued against A/c No. II wrongly debited by Bank to A/c No. I		1,800
BALANCE AS PER PASS BOOK (*Balancing figure*)		87,500
	89,300	89,300

(ii) BANK RECONCILIATION STATEMENT OF DAFTARI BROTHERS BANK A/c NO. II

as on... ....

Particulars	*Minus* *Amount* *(Balance)*	*Plus* *Amount* *(Overdraft)*
	Rs.	Rs.
Bank Overdraft as per Cash Book		1,80,000
Less : Cheques issued but not yet presented for payment in the bank	21,500	
Add : Cheques deposited into the bank, but not yet cleared		47,500
Add : Interest on overdraft charged by the bank, not recored in Cash Book		2,500
Less : Cheques issued but wrongly debited by Bank in A/c No. I	1,800	
BANK OVERDRAFT AS PER PASS BOOK (*Balancing figure*)	2,06,700	
	2,30,000	2,30,000

F

PURCHASES AND SALES JOURNAL

Problem 1. What do you mean by Purchases and Sales Journals ? Describe the methods of posting of entries from these journals to the ledger.

Solution :

To record the purchases of merchandise on credit to be resold, a separate register called the Purchases Journal or Purchases book is usually maintained by firms. Cash purchases are not recorded in this journal, because they are entered on the payments side of the Cash Book. The credit purchases of the other items such as equipments, furniture, etc., also are not recorded in it, because they are recorded in the general Journal.

Ruling : PURCHASES JOURNAL

Date	*Account credited (Suppliers)*	*Address*	*Invoice No. Date*	*L.F.*	*Purchases Debit*
					Rs.

Posting. A separate account is kept in the ledger for each supplier of the goods, and the amount of each purchase is credited to its respective personal account. The periodical total of the Purchases Journal is then posted to the debit of Purchases Account in the ledger with the words 'To Sundry Creditors' (*as per Purchases Journal*).

SALES JOURNAL

Sales Journal or Sales Book is used to record all credit sales of goods in which the trader deals. Cash sales are not included in this Journal, but they are recorded in the Cash Book. The sale of any assets is also not recorded in this journal, because they are recorded in General Journal.

Ruling: SALES JOURNAL

Date	*Account debited (Buyers)*	*Address*	*Invoice No. Date*	*L.F.*	*Sales Credit*
					Rs.

Posting. A separate account is opened in the ledger for each customer to whom the goods have been sold on credit, and the amount of each sale made to him is debited to his personal account. The periodical total of the Sales Journal is posted to the credit of Sales Account with the words 'By Sundry Debtors' (*as per Sales Journal*).

Problem. 2. Explain briefly : Sales Account

(*I.I.B. Part I, May 197*

Solution: This is an account kept by a trader in his ledger record the sales effected from time to time. The monthly totals of th Sales Journal and cash sales from the Cash Book are credited to th account. The balance of the account shows the total sales which hav been effected by that concern during the given period. The balance o the Sales Account is transferred to the Trading Account at the time of the closing of the financial year.

While ascertaining the amount of sales, the following points need attention :

(*i*) Sales should include both cash and credit sales of those goods which were purchased for resale purposes.

(*ii*) Returns inwards or Sales returns must be deducted from the figure of the total sales.

(*iii*) If a fixed asset such as furniture, machinery, etc., is sold, it should not be included under sales.

(*iv*) Goods sold on Consignment or on Hire-Purchase or on Sale/ Return basis should not be included in the total sales.

(*v*) Sale of goods on behalf of others and forward sales should also be excluded from sales.

Problem. 3. "Subdivision of Journal into Subsidiary Books is called as practical system of book-keeping". Why ? What is the need for such a system ?

Solution. The Journal is the book of prime entry in which all transactions are entered before being posted to the ledger. But, if all business transactions are passed through the Journal, the labour of recording each transaction, with its separate narration in it and then posting each such entry to two different accounts in the ledger, is enormous. Labour-saving techniques have, therefore, been applied to the art of Book-keeping.

The following subsidiary books have found their place in the modern Book-keeping.

(*i*) **Cash Book:** to record all cash receipts and payments, including receipts into and payments out of the bank, and also cash discount allow-ed and receipts.

(*ii*) **Purchases Book:** to record all credit purchases of goods in hich the merchant deals.

(*iii*) **Purchases Returns Book:** to record the return of the goods eviously purchased.

(*iv*) **Sales Book:** to record all the credit sales of the goods dealt in the firm.

(*v*) **Sales Returns Book:** to record all sales returned by the custo-s.

(*vi*) **Bills Receivable Book:** to record all bills, promissory notes or lies received.

(*vii*) **Bills Payable Book:** to record all bills accepted, issue of issory notes or hundies.

(*viii*) **Journal Proper:** to record those transactions for which there [no] separate book. Examples of such transactions are :

(*a*) The opening entry.

(*b*) Purchases of equipments and other assets on credit.

(*c*) Correcting entries.

(*d*) Adjusting, closing and reversing entries.

(*e*) Entries for receiving and issuing of Bills of Exchange, Pro[m]issory notes, hundies, etc., if a separate journal has not been main[t]ained.

(*f*) Purchases returns and sales returns, unless they are numerous enough to require a special journal.

(*g*) Selling the goods on Consignment, Joint-Venture, Hire-Purchase, Instalments, Sale/Return basis.

2

(Adjusting, Closing, Transfer and Rectification Entries—Adjustment for Bad Debts—Provision for Doubtful Debts and Discount on Debtors & Creditors—Different Methods of Depreciation.)

A

ADJUSTING ENTRIES

Problem 1. What do you mean by the followings ?

(*a*) Opening Entry, (*b*) Closing Entries,

(*c*) Transfer Entries, (*d*) Adjusting Entries.

Solution:

(*a*) *Opening Entry*

Opening entry is the journal entry to open the books of accounts for the new financial year of the business. In a new concern, where the trader commences business with cash, furniture and stock, etc., all these assets accounts are debited and credit is given to his capital account. In a going concern, the balances of previous year are brought forward in the beginning of new accounting year. All the assets accounts are debited and liabilitie are credited. The difference between the Assets and the Liabilities is credited to the Capital Account.

Opening entry is not actually posted in the ledger, but the accounts are merely incorporated in the new books of accounts with the words 'To Balance *b/d*' on debit side for all assets accounts, and with the words 'By balance *b/d*' on credit side for all liabilities and capital accounts.

(*b*) Closing Entries.

At the end of the financial period, all the normal accounts are closed by transferring them to the Trading and Profit and Loss Account. This is done by passing Closing Journal Entries in the journal proper.

The following is the list of usual closing entries :

(1) For transferring opening stock of goods, net purchases (Total Purchases—Returns outwards), and all the manufacturing, buying and bringing expenses : 'Trading account is debited and all the above mentioned accounts are credited'.

(2) For transferring Net Sales (Total sales—Returns inwards) : 'Sales account is debited and Trading account is credited.'

(3) For transferring all the administrative, selling and distribution expenses to the Profit & Loss Account : 'Profit and Loss Account is debited and each of the various nominal accounts which represent expenses and losses is credited'.

(4) For transferring all the items of gains : 'Various nominal accounts are debited and Profit & Loss account is credited.'

(5) For transferring the net profit to the Capital account : 'The Profit & Loss account is debited and the Capital Account is credited.'

(6) For transferring the net loss to the Capital account: 'Capital account is debited and the Profit & Loss account is credited.'

All remaining accounts *viz.*. Real and Personal Accounts pertaining to property, assets, debtors, creditors, etc , are just shown in a statement called as Balance Sheet. All the debit balances are shown on the Assets, right-hand, side and all the credit balances are shown on the liabilities, left-hand, side of the Balance Sheet. Capital account, being a credit balance is also shown on the liabilities side.

(*c*) **Transfer Entries**

When an amount or a balance of one account is to be taken to some other account, it is done by passing a transfer entry in the Journal Proper.

Transfer entries are generally passed to transfer;

(1) Drawings account of the proprietor to his Capital Account : 'Debit the Capital Account and Credit the Drawings Account.'

(2) Returns outward account to the Purchases Account : 'Debit the Returns Outwards Account & Credit the Purchases Account.'

(3) Returns Inwards Account to the Sales Account: 'Debit Sales Account and Credit Returns Inwards Account'.

(4) Gross profit from Trading Account to the Profit and Loss Account:
'Debit Trading Account and Credit Profit and Loss Account'.

(5) Expenses or Incomes recorded in wrong accounts to appropriate account.

(6) Debits/Credits from one account to another.

(*d*) **Adjusting Entries**

The unadjusted and unrecorded items relating to the period are recorded through the Journal by passing entries called Adjusting Entries.

The following are the matters to which adjustments are usually necessary at the end of the trading period :

(1) **For Closing Stock** : 'Debit the Stock Account and Credit Trading Account.' Stock will appear as an Asset in the Balance Sheet.

(2) **For Outstanding Expenses** : 'Debit the appropriate expense account and credit the expenses outstanding account.' The outstanding expenses will be added to the nominal account concerned in Trading or Profit and Loss Account on the debit side, and will appear as a Liability in the Balance Sheet, because these are the outstanding creditors.

(3) **For Prepaid Expenses:** 'Debit the appropriate Prepaid Expenses account, and credit the nominal account' in respect of which the advance payment is made. The amount of prepaid expenses will be shown as a deduction from the appropriate expenses on the debit side

of Trading or Profit and Loss A/c and will appear as an Asset in the Balance Sheet.

(4) **For Outstanding Income:** 'Debit Outstanding Income Account, and credit the appropriate Income Account'. The outstanding income will be added to the nominal account concerned on the credit side of the Profit and Loss Account, and will appear as an Asset in the Balance Sheet.

(5) **For Income Received in Advance:** 'Debit the appropriate nominal account of the income and credit the Prepaid Income Account'. This amount will be shown as a deduction from the nominal account concerned on credit side of Profit and Loss Account and will appear as a Liability in the Balance Sheet.

(6) **For Depreciation on Assets:** 'Debit Depreciation Account, and credit the account of the Asset to be depreciated'. Depreciation will be shown on the debit side of Profit and Loss Account, and the amount will appear as a deduction from the concerned Asset in the Balance Sheet.

(7) **For Interest on Capital:** 'Debit Interest on Capital Account, and credit the Proprietor's Capital Account'. This will be shown firstly on the debit side of the Profit and Loss account and will then appear as an addition in the Capital Account on the Liabilities side of the Balance Sheet.

(8) **For Interest on Drawings:** 'Debit the Proprietor's Drawing account and credit Interest on Drawings Account'. Interest on drawings will be shown firstly on the credit side of the Profit and Loss Account, and then it will be added to the Drawings Account of the proprietor, which will ultimately be deducted from the Capital Account.

(9) **For Writting off Bad Debts:** These are irrecoverable debts from customers which are 'debited to Bad Debts Account and credited to the Debtors Account'. It is added to the Bad Debts Account on the Debit of the Profit and Loss Account and is shown as a deduction from Sundry Debtors on the Assets side of the Balance Sheet.

(10) **Reserve for Doubtful Debts:** To provide for estimated loss in respect of Doubtful Debts, 'Profit and Loss Account is debited and Provision or Reserve for Doubtful Debts Account is credited'. This is shown as a deduction from Sundry Debtors balance on the Assets side of the Balance Sheet.

(11) **Reserve for Discount on Debtors:** To provide for discounts allowable to good Debtors, 'Profit and Loss' Acconnt is debited and Provision for Discount on Debtors Account is credited'. This amount is shown as a deduction from Sundry Debtors balance (after deduction of provision for doubtful debts) in the Balance Sheet.

(12) **Reserve for Discount on Creditors:** To provide discount receivable from the suppliers, 'Debit Reserve for Discount on Creditor's Account and credit Profit and Loss Account' The amount is shown as a deduction from Sundry Creditor's on the liabilities side of the Balance Sheet.

(13) **Reserve Fund :** When a part of the profit made is transferred a Reserve Fund : 'Profit and Loss A/c is debited and Reserve Fund A/c credited'. This amount of Reserve Fund is shown on the Liabilities e in the Balance Sheet after adding the amount in the opening balance the Reserve Fund.

Problem 2. The following adjustments were necessary to complete he Final Accounts of Newspaper Ltd., as at 31st December, 1966 :

(*a*) Rs. 3,700 for salaries and Rs. 1,800 for Directors' Fees were to be brought into account.

(*b*) Rs. 1,200 were paid as Fire Premium for the year ended 31st March, 1967.

(*c*) Rs. 900 were received for subscription and Rs. 1,200 for advertisement pertaining to 1967.

(*d*) Rs. 1,200 paid for new machinery debited to Repairs A/c.

(*e*) Subscription and advertisement—receivables were Rs. 1,800 and Rs. 4,500.

(*f*) Rs. 400 spent on erection of new Machinery wrongly debited to General expenses A/c.

(*g*) 20 reams of paper received on 28th December, 1966 were included in closing stock, but the purchase entry for Rs. 8,000 was made in the succeeding period.

Pass necessary Journal Entries to give effect to the above.

(*I.I.B. Part I, May 1967*)

Solution:

ADJUSTING JOURNAL ENTRIES IN THE BOOKS OF NEWSPAPER LTD.
as on 31st Dec., 1966

	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	
(*a*)	Salaries A/c Dr. To Salaries outstanding A/c (Being the amount still due on account of salaries)		3,700	
	Director's fees A/c Dr. To Director's fees outstanding A/c (Being the fees payable to the Directors brought into account)		1.800	
(*b*)	Insurance prepaid A/c Dr. To Insurance A/c (Being premium for the quarter ended 31-3-1967 on the Fire Insurance Policy paid in advance)		300	

	Particulars		Rs.	Rs.
	Subscriptions A/c.	Dr.	900	
	To Subscriptions prepaid A/c			900
	(Being subscriptions for 1967 received in advance)			
(c)	Advertisements A/c	Dr.	1,200	
	To Advertisements prepaid A/c			1,200
	(Being incomes on account of advertisements received in advance pertaining to 1967)			
(d)	Machinery A/c	Dr.	1,200	
	To Repairs A/c			1,200
	(Being amount paid for purchasing new machinery wrongly debited to Repairs Account, rectified)			
(e)	Subscriptions outstanding A/c	Dr.	1,800	
	To Subscriptions A/c			1,800
	(Being subscriptions receivables for the year 1966 not yet received)			
(e)	Advertisements outstanding A/c	Dr.	4,500	
	To Advertisements A/c			4,500
	(Being advertisements already released during 1966, but their proceeds have not yet been received)			
(f)	Machinery A/c	Dr.	400	
	To General expenses A/c			400
	(Being the amount incurred on the erection of new machinery which is a capital expenditure, wrongly charged to General expensee account, rectified)			
(g)	Purchases A/c	Dr.	8,000	
	To Supplier's A/c			8,000
	(Being the cost of 20 reams of paper received on 28th December, 1966 already included in the closing stock)			

Note. *For Item No. (g)* :

The purchase entry for Rs. 8,000 was made in the succeeding period, *i.e.*, in 1967, therefore, in the year 1967 a reverse entry debiting the Supplier's A/c and crediting the Purchases A/c will be passed.

Problem 3. Pass Journal Entries to incorporate the following at the time of preparing final accounts :

(*a*) Provide $2\frac{1}{2}\%$ for Discount on debtors and create a Bad Debt provision of 10 per cent. (Bal. of Debtors Rs. 3,000).

(*b*) Closing Stock was valued at Rs. 4,300.

(*c*) Wages owing Rs. 250.

(*d*) Insurance paid in advance Rs. 150.

(*e*) Included in Debtors is Rs. 100 owing by A (proprietor) and included in the creditors Rs. 50 owing to A (a customer).

(*f*) Plant which stood at Rs. 7,500 in the books on the 1st day of the year was disposed of for Rs. 3,000 in part exchange for a new machinery costing Rs. 6,000. A net invoice of Rs. 3,000 was passed through purchase book.

(*g*) Purchase invoices amounting to Rs. 1,500 had been omitted from the books.

(*h*) A neon sign costing Rs. 750 was included in advertising.

(*i*) The debits for two dishonoured cheques for Rs. 450 and Rs. 300 respectively had not been entered in the Cash Book. In the case of the second cheque for Rs. 300, it was expected that the debtor would be in a position to pay a dividend of 75 P. in the rupee.

(*j*) Private purchases amounting to Rs. 1,500 had been included in the Purchase Book. (*I.I.B. Part I, May 1968*)

Solution :

ADJUSTING JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs. P.	Rs. P.
(*a*)	Profit & Loss A/c	Dr.		300·00	
	To Provision for Doubtful Debts A/c				300·00
	(Being the amount required to create a provision for bad and doubtful debts at 10% on the debtors amounting to Rs. 3,000)				
	Profit & Loss A/c	Dr.		67·50	
	To Provision for Discount on Debtors A/c				67·50
	(Being the amount required as provision @ $2\frac{1}{2}\%$ on Rs. 2,700, *i.e.* Rs. 3,000 – Rs. 300)				

			Rs. P.	Rs. P.
(*b*)	Stock A/c	Dr.	4,300 00	
	To Trading A/c			4,300·00
	(Being the value of closing stock taken into the accounts)			
(*c*)	Wages A/c	Dr.	250 00	
	To Wages Outstanding A/c			250·000
	(Being the amount still due on account of wages)			
(*d*)	Insurance Prepaid A/c	Dr.	150·00	
	To Insurance A/c			150·00
	(Being premium on the insurance policy paid in advance)			
(*e*)	A's Drawings A/c	Dr.	100·00	
	To Sundry Debtors A/c			100·00
	(Being the amount wrongly debited to Debtors A/c instead of the Proprietor's A/c, now debited to his Drawings a/c)			
	No adjustment is required for the second part of the adjustment no (*e*), because if any amount is due to a person it is shown in Sundry Creditors Account. As Mr. A is a customer but Rs. 50 are owing to him, it has correctly been included in the Creditors Account. Alternatively, this will reduce Sundry Debtors to the extent of Rs. 50)			
(*f*)	Machinery A/c	Dr.	6,000·00	
	Profit & Loss A/c	Dr.	4,500 00	
	To Plant A/c			7,500·00
	To Purchases A/c			3,000·00
	(Being new machinery purchased for Rs. 6,000 recorded in the books. The old plant of the book value of Rs. 7,500 disposed of for Rs. 3,000, *i.e.*, at a loss of Rs. 4,500. The amount wrongly debited to Purchases account instead of Machinery account, now rectified)			

		Rs. P.	Rs. P.
...urchases A/c	Dr.	1,500·00	
To Sundry Creditors			1,500·00
(Being purchase invoices already omitted to be entered in the books, now recorded)			
Fixtures A/c	Dr.	750·00	
To Advertisements A/c			750·00
(Being the purchase of a neon sign board wrongly included in advertisements, now rectified)			
Sundry Debtors A/c	Dr.	675·00	
Provision for doubtful debts A/c	Dr.	75·00	
To Bank A/c			750·00
(Being two cheques amounting to Rs. 450 and Rs. 300 returned dishonoured by the bank. In the case of cheques for Rs. 300, it is expected that the Debtor would be in a position to pay only Rs. 225—a dividend of 75 P. in a rupee. As such the bad debts of Rs. 75 are debited to the provision maintained for the purpose)			
(j) A's Drawings A/c	Dr.	1,50 ·00	
To Parchases A/c			1,500·00
(Being purchases of goods used by the proprietor for his private purposes, wrongly entered in the Purchases Book, now rectified).			

B

RECTIFYING ENTRIES

Problem 1. Explain the different classes of errors that usually arise in the account-keeping and how they should be rectified.

(*I.I.B. Part I, May 1971*)

OR

Explain briefly ;

(1) Errors of Omission ;
(2) Errors of Commission ;
(3) Compensating Errors ; an...
(4) Errors of Principle.

(*I I.B. Part I, November 196...*)

OR

Explain briefly the following:

(1) Errors of Omission; (3) Errors of Principle; and

(2) Errors of Commission; (4) Compensating Errors.

Give example in each and state how they affect the Trial Balance ?

(*I.I.B. Part I, May 1973*)

OR

Explain briefly :

(1) What types of mistakes are disclosed by a Trial Balance ?

(2) What types of mistakes are not disclosed by a Trial Balance ?

(*I.I.B. Part I, November 1974*)

Solution: For proving accuracy of postings in the ledger, periodically a trial balance is taken out wherein debit and credit balances are separately listed and totalled. If the Trial Balance agrees, it simply means that for every amount entered on the debit side of the ledger, an equal amount has been entered on the credit side. This indicates that a Trial Balance may agree arithmetically, yet there may be a number of errors in account keeping.

Types of Errors

The Book-keeping errors can broadly be divided into following categories :

(1) **Errors of Principle.** When a transaction is recorded in total disregard of the fundamental principles of Double Entry. For example, when an asset is treated as an expense or *vice-versa* or a liability is treated as an income or *vice-versa* as illustrated below

(*a*) Amount spent for the repairs of building wrongly debited to Buildings A/c.

(*b*) Furniture purchased wrongly debited to the Purchases Account.

Errors of Omission. If a transaction is completely or partially omitted from the books of accounts, this is called Error of Omission. For example:

(*a*) Credit purchases omitted to be recorded in the Purchases Book.

(*b*) Omission to post an entry from any subsidiary book.

(3) **Errors of Commission.** These are the errors wherein some mistake has been committed while recording the transactions. Posting to wrong account, posting of wrong amount, posting to wrong side, double posting, wrong totalling, wrong carry forward, wrong balancing, wrong calculations, etc. are the examples of such type of errors.

(4) **Compensating Errors.** If the effect of the errors committed cancels out, the errors will be called *compensating errors*. For example:

(*a*) Underposting of the purchase book may be compensated with the undercasting of Sales Book.

(*b*) Omission of posting of an amount on the debit side of a certain account may be compensated by overposting of the same amount on the debit side in some other account or accounts.

An existence of an error or errors is usually revealed by a disagreement of the two sides of the trial balance. However, there are certain errors which do not affect the trial balance and, therefore, they cannot be disclosed by a disagreeing trial balance.

From the point of view of the effect of errors on the trial balance they can be divided into the following two categories :

I. Errors which affect the trial balance. These are the errors due to which the trial balance does not agree. In other words, these are the mistakes which are disclosed by the trial balance. These are the followings :

(*a*) Omission of posting of an item from a subsidiary book.

(*b*) Posting a wrong amount to a ledger account.

(*c*) Posting an amount to the wrong side of the account in the ledger.

(*d*) Omission of casting.

(*e*) Omission of carry forward.

(*f*) Wrong balancing.

(*g*) Wrong carry forward.

(*h*) Omission of an amount from trial balance.

(*i*) Balance of some account written to the wrong side of the trial balance.

(*j*) Double posting to a ledger account.

(*k*) Totalling the trial balance wrongly.

(*l*) Omitting to write the cash book balance in the trial balance.

(*m*) Omitting to post the totals of subsidiary books into the ledger.

II. Errors which do not effect the agreement of the trial balance. The undernoted errors are not revealed by the trial balance, inspite of its agreement :

(*a*) Errors of principle.

(*b*) Errors of complete omission, *i.e.*, omission of an entry altogether from the subsidiary books.

(*c*) Wrong entries in any original record.

(*d*) Posting an amount to the correct side but in wrong account.

(*e*) Compensating errors.

RECTIFICATION OF ERRORS

Before Closing the Books. If the trial balance does not tally at the end of the trading period, efforts should be made to locate the errors, which cause the disagreement. The errors discovered will be corrected and consequently Trial Balance will tally.

After Closing the Books. If the Trial Balance does not tally, even inspite of best efforts, the presentation of final statements of accounts cannot be postponed for a long period. In such a case, the difference of the trial balance is placed to a Suspense Account and Trial Balance is made to tally.

Following are the methods which can be used for rectification of errors :

(1) **By Striking Off.** Errors should never be corrected by over-writing. If immediately after making an entry, it is detected that an error has been committed, it may he corrected by neatly crossing out the wrong entry and making the correct entry.

(2) **By Passing a Journal Entry.** If the error is located after some time, the correction should be made by making another journal entry, called rectification entry. The steps to be followed are :

(*a*) Debit the account that should have been debited (but is not debited) and credit the account that is wrongly debited, or

(*b*) Debit the account that is wrongly credited, and credit the account that should have beed credited (but not yet credited),

The above noted procedure will be applied, if there is two-sided error. However, if there is one-sided error, and the difference has already been transferred to Suspense account, then :

(*c*) Debit the account which should have been debited (but is not *debited), and credit the Suspense account, or*

(*d*) Debit the Suspense Account, and credit the account which should have been credited (but is not credited).

Problem 2. The Trial Balance of a firm is out by Rs. 2,788 (excess debit) and which amount was put to the credit or suspense account. The following errors are found, subsequently, to have been committed. Pass journal entries to correct them :

(1) An amount of Rs. 100 was received from D on 31st March 1969 (the date of closing the books) but had been entered in the cash book on 4th April, 1969.

(2) The Return Inwards Book for March had been cast Rs. 100 short.

(3) The purchase of an office table costing Rs. 300 had been passed through the Purchase Day Book.

(4) Rs. 375 paid for wages to workmen for making show-cases had been charged to wages account

(5) A purchase of Rs. 671 from A had been posted to the debit of his account as Rs. 617.

(6) A cheque for Rs. 200 received from B has been dishonoured and was debited to discount account.

(7) Value of goods amounting to Rs. 100, returned by a customer, and taken *into stock, was not entered into the books of accounts.*

(8) A sale of Rs. 200 to C was credited to his account.

... sale of Rs. 1,000 has been passed through the purchase book. ...the customer's account has been correctly debited.

... Rs. 2,000 paid as a deposit for purchase of a car had been ...o purchases account. *(I.I.B. Part I, November 1970)*

...:

RECTIFYING JOURNAL ENTRIES

	Particulars	*L.F.*	*Dedit Amount* Rs.	*Credit Amount* Rs.
	Cash A/c Dr. To D (Being the amount received recorded)		100	100
	Note. The entry already passed in the Cash Book on 4th April, 1969 will be reversed by entering on the credit side of the Cash Book "By D" (to reverse entry wrongly passed on 4th April for Rs. 100.			
(2)	Returns Inwards A/c Dr. To Suspense A/c (Being the mistake in totalling the Return Inwards Book corrected)		100	100
(3)	Furniture & Fixtures A/c Dr. To Purchases A/c (Being the rectification of the error by which purchase of furniture was entered in Purchases Book and as such debited to Purchases A/c)		300	300
(4)	Furniture Fixtures A/c Dr. To Wages A/c (Being the wages paid to workmen for making the show-cases have been debited to wages account instead of being charged to Furniture & Fixtures A/c, rectified)		375	375
(5)	Suspense A/c Dr. To A (Being the mistake rectified for having debited A's (the supplier) account with Rs. 617 instead of being crediting his account with Rs. 671)		1,288	1,28

			Rs.	Rs.
(6)	B	Dr.	200	
	To Discount A/c			200
	(Being the cheque of B dishonoured previously debited to Discount A/c, now rectified)			
(7)	Return Inwards A/c	Dr.	100	
	To Customer's (Personal) A/c			100
	(Being the returns of goods by the customer not previously recorded)			
(8)	C	Dr.	400	
	To Suspense A/c			400
	(Being the correction of the mistake by which the account of C was credited by Rs. 200 instead of being debited on account of credit sales made to him)			
(9)	Suspense A/c	Dr	2,000	
	To Purchases A/c			1,000
	To Sales A/c			1,000
	(Being credit sales although correctly debited to the customer's A/c, wrongly debited to Purchases account instead of being credited to Sales account, now rectified)			
(10)	Deposits for Car A/c	Dr.	2,000	
	To Purchases A/c			2,000
	(Being payment made as a deposit for purchasing car wrongly debited to the Purchases account, corrected)			

Problem 3. The Trial Balance of a trader only balanced after inserting a suspense item for which an account was opened in the ledger.

On auditing the books of accounts the following errors were located :

(1) Rs. 100 received from A Rustomji had been posted to B. Rustomji's Account.

(2) Rs. 20 paid for postage expenses was left off to be posted to that account.

(3) In casting sales books Rs. 878 had been carried forward as 87.

(4) An invoice of Rs. 15,020 in respect of a motor car included item of Rs. 20 for road tax. The whole amount was debited to tor car account.

(5) An item of Rs. 50 for goods returned by J. Purshotam was bited to his account.

(6) Rs. 500 credited to partner's drawings accounts for interest on apital was debited to Bank interest account.

(7) In extracting the ledger balances an item of Rs. 100 for goods sold in succeeding period and debited to the party's account was by mistake included in the trial balance.

Pass journal entries to rectify the above errors and prepare the suspense account showing the opening balance. *(I.I.B. Part I, May 1972)*

Solution :

RECTIFYING JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	B. Rustomji's A/c To A. Rustomji's A/c (Being amount received from A. Rustomji wrongly credited to the account of B. Rustomji, rectified)	Dr.		100	100
(2)	Postage & Telegrams A/c To Suspense A/c (Being amount not posted in the former account on account of postage expenses incurred, now rectified)	Dr.		20	2
(3)	Suspense A/c To Sales A/c (Being the mistake in carry forward of the totals of the Sales Book, rectified)	Dr.		91	
(4)	Motor car expenses A/c To Motor car A/c (Being the amount of road tax wrongly included in the cost of Motor car account, now transferred to the expenses account)	Dr.		20	

			Rs.	Rs.
(5)	Suspense A/c To J. Purshotam's A/c (Being goods returned by him for the value of Rs. 50 wrongly debited to his account instead of crediting the same, now corrected)	Dr.	100	100
(6)	Interest on capital A/c To Bank interest A/c (Being the amount of interest on capital wrongly debited to Bank interest Account, now adjusted)	Dr.	500	500
(7)	Suspense A/c To Party's A/c (Being sale relating to succeeding period included in this period, now adjusted)	Dr.	100	100

SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*L.F.*	*Amount*	*Sl.*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
3.	To Sales A/c		91		By Balance b/d *(Balancing figure)*		271
5.	To J. Purshotam		100				
7.	To Party's A/c		100	2.	By Postage & Telegrams		20
			291				291

Problem 4. In order to close the books in time, an accountant places the difference in the books to a suspense account.

Subsequently the following mistakes were located :

(1) Sales book was overcast by Rs. 100.

(2) A sale of Rs. 50 to "X" was wrongly debited to "Y".

(3) A debit of Rs. 18 the General expenses account was taken at Rs. 80.

(4) A bill for Rs. 155 accepted by a customer was passed through Bills Payable Book.

(5) Legal expenses Rs. 119 were debited to the personal account of the Vakeel.

(6) Cash received from A. Soloman debited to B. Soloman's account Rs. 150.

(7) Total of Rs. 1,235 on page 5 of the Purchase Book was carried forward as Rs. 1,325 on page 6 of the said book.

Pass journal entries to rectify the errors and prepare suspense account.

(*I.I.B. Part I, May 1973*)

Solution :

RECTIFYING JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Sales A/c	Dr.		100	
	To Suspense A/c				100
	(Being the correction arising from overcasting of Sales Book)				
(2)	X's A/c	Dr.		50	
	To Y's A/c				50
	(Being sales made to X wrongly debited to Y, now rectified)				
(3)	Suspense A/c	Dr.		62	
	To General expenses A/c				62
	(Being amount of Rs. 18 wrongly debited in the General expenses account as Rs. 80. The excese debit in the said account now corrected)				
(4)	Bills Payable A/c	Dr.		155	
	Bills Receivable A/c	Dr.		155	
	To Customer's (Personal) A/c				310
	(Being a bill receivable accepted by the customer wrongly credited to bills payable account instead of being debited to the bills receivable account, now corrected)				

			Rs.	Rs.
(5)	Legal expenses A/c	Dr.	119	
	To Vakeel's (Personal) A/c			119
	(Being the revenue expenses wrongly debited to the personal account of the receiver, now rectified)			
(6)	Suspense A/c	Dr.	300	
	To B. Soloman			150
	To A. Soloman			150
	(Being amount received from A. Soloman, instead of being credited to his account wrongly debited to B. Soloman's Account, now corrected)			
(7)	Suspense A/c	Dr.	90	
	To Purchrses A/c			90
	(Being the total of page 5 of the Purchases Book as Rs. 1,235 wrongly carried forward on page 6 of the said book as Rs. 1,325. The excess carry forward is now rectified)			

SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
(3)	To General expenses	62		By Balance b/d (*Balancing figure*)	352
(6)	To B. Soloman	150	(1)	By Sales A/c	100
	To A. Soloman	150			
(7)	To Purchases A/c	90			
		452			452

Problem 5. A ledger keeper of Acharya and Co., could not agree the trial balance. He transferred an amount of Rs. 296 being excess of the debit side total to the Suspense Account. The following entries were subsequently discovered :

(1) Sales book was overcast by Rs. 300.

(2) Purchase of furniture worth Rs. 615 was passed through the Purchases book.

(3) An amount of Rs. 55 received from M/s. Shah and Co. was posted to their account as 550.

(4) Purchases returns book total on a folio was carried forward as Rs. 221 instead of Rs. 112.

(5) A cash sales of Rs. 1,235 though duly entered in the cash book was posted to the sales account as Rs. 235.

(6) Rest of the difference was due to a wrong total in the Salaries Account in the Ledger.

Pass the necessary journal entries and prepare Suspense Account in the books of Acharya and Co.

(I.I.B. Part I, November 1975)

Solution :

RECTIFYING JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Sales A/c	Dr.		300	
	To Suspense A/c				300
	(Being the excess of totalling in the Sales Book, rectified)				
(2)	Furniture and Fixtures A/c	Dr.		615	
	To Purchases A/c				615
	(Being the capital expenditure incurred for purchasing furniture debited to the purchases account through Purchase Book instead of being debited to the furniture and fixtures account, now rectified)				
(3)	Shah and Co.	Dr.		495	
	To Suspense A/c				495
	(Being the excess credit given in the account of Shah and Co., *i.e.* Rs. 550 credited in place of Rs. 55 to be credited, now corrected)				
(4)	Returns outwards A/c	Dr.		109	
	To Suspense A/c				109
	(Being the correction of a wrong carry forward in the Purchase Returns Book Rs. 221 carried forward instead of Rs. 112)				

			Rs.	Rs.
(5)	Suspense A/c To Sales A/c (Being short credit, given in the sales account—Rs. 235 instead of the correct amount of Rs. 1,235—now adjusted)	Dr.	1,000	1,000
(6)	Suspense A/c To Salaries A/c (Being the rectification of the error for the excess debit in the salaries account due to wrong totals)	Dr.	200	200

SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl*	*Particulars*	*Amount*
		Rs.			Rs.
(5)	To Sales A/c	1,000		By Balance B/d	296
(6)	To Salaries A/c	200	(1)	By Sales A/c	300
	(*Balancing figure*)		(3)	By Shah & Co.	495
			(4)	By Returns outwards	109
		1,200			1,200

Problem 6. An accountant could not tally Trial Balance. The difference was temporarily placed to Suspense Account for preparing the final accounts. The following errors were later discovered :

(*a*) The Sales book was undercast by Rs. 50.

(*b*) Entertainment expenses Rs. 95, though entered in the Cash Book, were omitted to be posted in the ledger.

(*c*) Discount column of the receipt side of the Cash Book was *wrongly added as Rs. 140 instead of Rs. 120.*

(*d*) Commission of Rs. 25 paid, was posted twice, once to discount account and once to commission account.

(*e*) A sale of Rs. 139 to Ramanlal though correctly entered in Sales book, was posted wrongly to his account as Rs. 193.

(*f*) A purchase from Niranjan of Rs. 92, though correctly entered in the Purchases book, was wrongly debited to his personal account.

You are required to :

(*i*) Pass the necessary rectifying entries,

(*ii*) Prepare Suspense Account, and

(iii) State the effect of each of the rectifications on the profit. What would be the correct profit if the profit originally arrived at was Rs. 10,000 ? (I.I.B. Part I, October 1976)

Solution :

(i) RECTIFYING JOURNAL ENTRIES

Sl	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(a)	Suspense A/c	Dr.		50	
	To Sales A/c				50
	(Being the mistake in totalling the Sales book corrected)				
(b)	Entertainment expenses A/c	Dr.		95	
	To Suspense A/c				95
	(Being the entry to record the posting of entertainment expenses, which was omitted earlier)				
(c)	Suspense A/c	Dr.		20	
	To Discount A/c				20
	(Being the entry to rectify the mistake in totalling the discount allowed column of the cash book—total wrongly written as Rs. 140 in place of the correct total of 120)				
(d)	Suspense A/c	Dr.		25	
	To Discount A/c				25
	(Being the excess amount wrongly posted in the discount account, rectified)				
(e)	Suspense A/c	Dr.		54	
	To Ramanlal				54
	(Being sales made to Ramanlal amounting to Rs. 139 wrongly posted in his account as Rs. 193, now corrected)				
(f)	Suspense A/c	Dr.		184	
	To Niranjan				184
	(Being purchases made from him for Rs. 92 wrongly debited to his personal account instead of being credited, now rectified)				

(ii) SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	Particulars	L.F.	Amount	Sl.	Particulars	L.F.	Amount
			Rs.				Rs.
(a)	To Sales A/c		50		By Balance b/d		238
(c)	To Discount A/c		20		(*Balancing figure*)		
(d)	To Discount A/c		25	(b)	By Entertainment		
(e)	To Ramanlal		54		expenses A/c		95
(f)	To Niranjan		184				
			333				333

(iii) EFFECT OF RECTIFICATIONS ON PROFIT

(a) Profits increased by Rs. 50.
(b) Profits decreased by Rs. 95.
(c) Profits increased by Rs. 20.
(d) Profits increased by Rs. 25.
(e) No effect.
(f) No effect.

PROFIT & LOSS ADJUSTMENT ACCOUNT

Dr. *Cr.*

Sl.	Particulars	Amount	Sl.	Particulars	Amount
		Rs.			Rs.
(b)	To Entertainment			By Balance b/d	10,000
	expenses	95	(a)	By Sales A/c	50
	To Balance c/d	10,000	(c)	By Discount A/c	20
	(*Balancing figure*)		(d)	By Discount A/c	25
		10,095			10,095

Note :

The errors have a compensating effect. Hence the profit of Rs. 10,000 will remain the same as arrived earlier.

Problem 7. An accountant has extracted the following trial
nce as on 30th September, 1977 :

		Dr.	Cr.
		Rs.	Rs.
ash in hand	...	200	
apital	...		15,960
Drawings	...	14,000	
Sales and Purchases	...	1,54,860	2,06,070
Purchases returns	...		2,100
Opening Stock	...	21,070	
Debtors and Creditors	...	18,190	20,780
Carriage on purchases	...	1,090	
Carriage on sales	...	1,840	
Rent and rates	...	4,600	
Light and heat	...	750	
Postage and telephone	...	910	
Sundry expenses	...	1,900	
Cash at Bank	...	18,040	
Fixtures and Fittings	...	7,100	
	Rs.	2,44,550	2,44,910

The auditors investigated the difference in trial balance and dis
covered the following errors in September, 1977 :

(i) The credit side of a debtor's account had been overcast
Rs. 100.

(ii) An amount of Rs. 40 for carriage on sales had been poste
error to the carriage on purchases.

(iii) A credit note of Rs. 170 received from a creditor had
entered in the proper subsidiary book but no entry had been ma
the creditors' account.

(iv) Rs. 350 paid for repairs to the proprietor's residence had
charged to Sundry expenses account.

(v) A payment of an electricity bill of Rs. 210 was posted fr
Cash book to the postage and telephone account as Rs. 120.

You are required to :

(a) Show the adjustments necessary to rectify the above err

(b) Re-write the trial balance.

(I.I.B. Part I, Noven

Solution :

RECTIFYING JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(i)	Sundry Debtots A/c	Dr.		100	
	To Suspense A/c				100
	(Being the mistake in totalling the credit side of the Debtors account rectified)				
(ii)	Carriage on sales A/c	Dr.		40	
	To Carriage on purchases A/c				40
	(Being the mistake of debiting carriage on purchases account for the expenditure incurred towards carriage on sales, now corrected)				
(iii)	Creditor's (Personal) A/c	Dr.		170	
	To Suspense A/c				170
	(Being the omission of debiting the personal account of the creditor for a credit note received from him, now recorded)				
(iv)	Drawings A/c	Dr.		350	
	To Sundry expenses A/c				350
	(Being the amount incurred for repairs to the proprietor's residence was to be debited to his drawings account, but wrongly charred to Sundry Expenses Account, rectified)				
(v)	Electricity charges A/c	Dr.		210	
	To Suspense A/c				90
	To Postage & telephones A/c				120
	(Being the payment made for electricity bill for Rs. 210 not only posted to the debit of Postage and telephone account, but also as Rs. 120. Both the errors rectified)				

Note : The accountant will open a Suspense Account with a debit balance of Rs. 360, being the difference in the Trial Balance (Rs. 2,44,910—Rs. 2,44,550).

						Cr.
SUSPENSE ACCOUNT						
Particulars	*L.F.*	*Amount*	*Sl.*	*Particulars*	*L.F.*	*Amount*
		Rs.				Rs.
Balance b/d (Difference in *Trial Balance*)		360	(*i*)	By Sundry Debtors		100
To Postage & telephones A/c		120	(*ii*)	By Creditor's (Personal) A/c		170
			(*v*)	By Electricity charges A/c		210
		480				480

Workings : The undernoted figures will be changed in the revise

Trial Balance :

(*i*) Sundry Debtors	Rs.	18,190	Plus Rs.	100	= Rs.	18,2
(*ii*) Carriage on sales	Rs.	1,840	Plus Rs.	40	= Rs.	1,8
Carriage on purchases	Rs.	1,090	Less Rs.	40	= Rs.	1,050
(*iii*) Creditors	Rs.	20,780	Less Rs.	170	= Rs.	20,610
(*iv*) Drawings	Rs.	14,000	Plus Rs.	350	= Rs.	14,350
Sundry expenses	Rs.	1,900	Less Rs.	350	= Rs.	1,550
(*v*) Electricity charges		nil	Plus Rs.	210	= Rs.	210
Postage & telephones	Rs.	910	Less Rs.	120	= Rs.	790

REVISED TRIAL BALANCE

Name of the account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Cash in hand	200	
Capital		15,960
Drawings	14,350	
Sales and Purchases	1,54,860	2,06,070
Purchase returns		2,10
Opening stock	21,070	
Debtors and Creditors	18,290	20,6
Carriage on purchases	1,050	
Carriage on sales	1,880	
Rent and rates	4,600	
Light and heat	750	
Total c/fd.	2,17,050	2,44

	Rs.	Rs.
Total b/fd.	2,17,050	2,44,740
Postage and telephone	790	
Sundry expenses	1,550	
Elecrticity charges	210	
Cash at Bank	18,040	
Fixtures and Fittings	7,100	
	2,44,740	2,44,740

Problem 8. The undermentioned errors were discovered in the books of Ram Rahim and Co. for the year ending 30th June 1979. Pass Journal entries to rectify the same :

(*a*) Goods amounting to Rs. 3,000 which had been returned by a customer, were taken into stock but no entry in this respect was made in the books.

(*b*) A purchase of goods from Mahamad amounting to Rs. 6,000 was wrongly passed through the Sales Book.

(*c*) A sale return from Rakesh. Rs. 280, was wrongly passed through the Sales Book and from there wrongly posted to the credit of Rakesh as Rs. 820

(*d*) A credit sale of Rs. 1,020 to Leelaram was wrongly passed through Purchase Book

(*e*) A bill receivable which was accepted by Kamrudin for Rs. 1,500, was sent to the bankers for collection. This having been dishonoured and returned by the Bank was debited to Bills Receivable Account.

(*f*) Rs. 1,700 paid to Mr. Waman against our acceptance was by mistake debited to M/s. Wamanson's account.

(*g*) Rs. 250 received from Garibchand as final dividend whose account has been written off as Bad Debt, was standing to the credit of Garibchand's account and was included in the list of creditors.

(J.L.B. Part I, November 197·)

RECTIFYING JOURNAL ENTRIES

	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
	Returns inwards A/c	Dr.		3,000	
	To Customer's A/c				3,000
	(Being the goods returned by the customer not previously recorded)				
	Purchases A/c	Dr.		6,000	
	Sales A/c	Dr.		6,000	
	To Mahamad				12,000
	(Being credit purchases wrongly passed through Sales Book, now rectified)				
(c)	Return inwards A/c	Dr.		280	
	Sales A/c	Dr.		280	
	Rakesh	Dr.		540	
	To Suspense A/c				1,10[illegible]
	(Being the excess credit given in the account of Rakesh, *i.e.* Rs. 820 credited in place of Rs. 280 to be credited, as well as the sale return of Rs. 280 wrongly passed through the Sales book, now rectified)				
	Leelaram	Dr.		2,040	
	To Sales A/c				1,020
	To Purchases A/c				1,020
	(Being credit sales wrongly passed through Purchases Book, now rectified)				
	Kamrudin	Dr.		1,500	
	To Bills Receivable A/c				1,50[illegible]
	(Being the dishonour of the bill debited to B/R account instead of acceptor's personal account, rectified)				
(f)	Bills Payable A/c	Dr.		1,700	
	To Wamanson's A/c				
	(Being payment against bills payable wrongly debited to Wamanson's account, now corrected)				

			Rs.	Rs.
(g)	Garibchand	Dr.	250	
	To Profit and Loss A/c			250
	(Being the recovery of bad debts written off wrongly credited to the personal account of Garibchand rectified).			

Problem 9. There was an error in the Trial Balance of Mr. Bawaji on 30th June 1980, and the difference in books was carried to Suspense Account. On going through the books, you find that :—

(1) Rs. 5,000 *received from* M. Mehta *were posted to the* debit of his account.

(2) Rs. 1,000 being purchases returns were posted to the debit of purchase A/c.

(3) Discount Rs. 2,000 received were posted to the debit of Discount A/c.

(4) Rs. 3,740 paid for repairs to Motor car were debited to Motor Car A/c, as Rs. 1,740.

(5) Rs. 4,000 paid to C. Dhruv were debited to the Account of G. Dhruve.

Give Journal entries, with complete narration, to rectify the above errors and state what amount was carried to the Suspense A/c.

(I I B Part I, October 1980)

Solution:

RECTIFYING JOURNAL ENTRIES IN THE BOOKS OF BAWAJI

Sl.	*Particulars*		*L F*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Suspense A/c	Dr.		10,800	
	To M. Mehta				10,800
	(Being Rs. 5,400 received from him wrongly debited instead of being credited to his account, now rectified)				

			Rs.	Rs.
(2)	Suspense A/c	Dr.	2,000	
	To Purchases A/c			1,000
	To Returns outwards A/c			1,000
	(Being Purchases returns to be credited, wrongly debited in Purchases account, now rectified)			
(3)	Suspense A/c	Dr.	400	
	To Discount A/c			400
	(For discount received being income to be credited, wrongly debited in Discount account, now rectified)			
(4)	Repairs to Motor Car A/c	Dr.	3,740	
	To Motor Car A/c			1,740
	To Suspense A/c			2,000
	(Being revenue expenditure of Rs.3,740 incurred towards repair charges of the Motor Car, wrongly debited as capital expenditure of Rs 1,740, now rectified)			
(5)	C. Dhruv	Dr.	4,000	
	To G. Dhruve			4,000
	(Being amount paid to C. Dhruve to be debited to his amount, wrongly debited to G. Dhruve's account, now rectified)			

SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
(1)	To M. Mehta	10,000		By Difference in the Trial Balance (*Balancing figure*)	14,800
(2)	To Purchases A/c	1,000	(4)	By Repairs to Motor Car A/c	3,740
	To Returns outwards	1,000			
(3)	To Discount A/c	4,000			
(4)	To Motor Car A/c	1,740			
		18,540			18,540

Note : The difference in the Trial Balance carried to the Suspense Account was Rs. 14,800/-

Problem 10. A book-keeper failed to balance his Trial Balance, the credit side exceeding the debit side by Rs. 259. The amount was entered in a Suspense Account. Later the following errors were discovered. Give journal entries to rectify the errors and prepare Suspense A/c.

(a) Goods amounting to Rs. 620 sold to Long & Co. were correctly entered in Sales Book, but posted to the account as Rs. 260.

(*b*) Goods amounting to Rs. 75 were sold to Short & Co., for cash. It was correctly entered in Cash Book but was wrongly credited to Short & Co.

(*c*) A credit balance of Rs. 735 of Rent Receivable A/c was shown as Rs. 550.

(*d*) The total of Returns Outwards Book amounting to Rs. 200 was not posted in the Ledger.

(*e*) Goods worth Rs. 100 were purchased from Broad & Co., but the amount was entered in the Sales Book. The account of Broad & Co., was correctly credited.

(*I.I.B. Part 1, May 1981*)

Solution:

RECTIFYING JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(*a*)	Long & Co. Dr.		360	
	To Suspense A/c			360
	(Being the sales of Rs. 620 correctly recorded in Sales Book, but debited to the party's account as Rs. 260, the difference of Rs 360 debited more to the buyer's account)			
(*b*)	Short & Co. Dr.		75	
	To Suspense A/c			75
	(Being cash sales to the party, wrongly credited to his account, now rectified)			
(*c*)	Suspense A/c Dr.		185	
	To Rent Receivable A/c			185
	(Being rectification of balance in the account shown as Rs. 550 instead of Rs. 735)			

			Rs.	Rs.
(d)	Suspenses A/c	Dr.	200	
	To Returns outwards A/c			200
	(Being the total of Purchases Returns omitted to be posted in the ledger account, now corrected)			
(e)	Purchases A/c	Dr.	100	
	Sales A/c	Dr.	100	
	To Suspense A/c			200
	(Being rectification of entry relating to purchases wrongly entered in the sales book, but the suppliers account correctly credited)			

SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
	To difference in the Trial Balance	250	(a)	By Long & Co.	360
			(b)	By Short & Co.	75
(c)	To Rent Receivable	185	(e)	By Purchases A/c	100
(d)	To Returns outwards	200	(e)	By Sales A/c	100
		635			635

Problem 11. On finalising the books of accounts of Mr. Accountant you come across the following :—

The trial Balance as at 31st December 1980 was out by Rs. 9991, excess credit.

The difference has been posted to a Suspense Account.

The following information is available :—

(1) An amount of Rs. 1,500 was received by the Bank from Mr. Goyal on 30th December 1980, but had been entered in Cash Book on 3rd January 1981.

(2) The total of Returns Inward Book for December had been cast Rs. 1000 short.

(3) An office table purchased costing Rs. 750, had been passed through Purchases Day Book.

(4) Wages Rs. 250 paid to carpenters for making a show case has been debited to Wages Account.

(5) Purchases, of Rs. 5,698, posted to creditors' account as Rs. 5,689.

(6) Discount account has been debited with Rs. 300, being a cheque for the amount received from Mr. A.K. Jain, a customer, dishonoured.

(7) Rs. 1,500 paid to Mr. Accountant, the proprietor for his personal use, has been debited to sundry expense account.

(8) Goods returned by a customer amounting to Rs. 260, were taken into stock. However no entry has been passed in the books.

(9) Goods sold on credit amounting to Rs. 4,500 to M/s. Shah & Co., was credited to their account.

Pass Journal entries to rectify the above with full narration and show "Suspense Account".

(I.I.B. Part I, November 1981)

Solution :

RECTIFYING JOURNAL ENTRIES IN THE BOOKS OF MR. ACCOUNTANT

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Bank A/c	Dr.		1,500	
	To Goyal's A/c				1,500
	(Being the amount collected by Bank from Mr. Goyal on 30-12-1980, recorded)				
(2)	Returns Inward A/c	Dr.		1,000	
	To Suspense A/c				1,000
	(Being the undercasting of Returns inward book, rectified.)				
(3)	Furniture A/c	Dr.		750	
	To Purchases A/c				750
	(Being purchase of an office table, being capital expenditure recorded in the Purchases day book, rectified)				

			Rs.	Rs.
(4)	Furniture A/c	Dr.	250	
	To Wages A/c			250
	(Being amount incurred for making a show case, capital expenditure, wrongly treated as a revenue expenditure and debited to the wages account, rectified)			
(5)	Suspense A/c	Dr.	9	
	To Creditors' Personal A/c			9
	(Being purchases of Rs. 5,698 recorded correctly in the Purchases book, but wrongly posted to the creditor's personal account as Rs. 5,689. now rectified)			
(6)	A.K. Jain's A/c	Dr.	300	
	To Discount A/c			300
	(Being cheque of the party dishonoured but discount account was debited instead of debiting the party's account, now corrected)			
(7)	Drawings A/c	Dr.	1,500	
	To Sundry Expenses A/c			1,500
	(Being amount paid to the proprietor debited to the Sundry Expenses Account instead of debiting the Drawings Account of the proprietor, now rectified)			
(8)	Returns Inward A/c	Dr.	260	
	To Customer's Personal A/c			260
	(Being goods returned by the customer not recorded, now entered in the books)			
(9)	Shah & Co,	Dr.	9,000	
	To Suspense A/c			9,000
	(Being goods sold for Rs. 4,500 correctly recorded in the sales book, but the amount was posted to the credit side of their account, instead of being debited, now rectified)			

Dr. SUSPENSE ACCOUNT Cr.

Sl.	Particulars	Amount	Sl.	Particulars	Amount
		Rs.			Rs.
	To Difference in the Trial Balance	9,991	(2)	By Returns Inward	1,000
			(9)	By Shah & Co.	9,000
(5)	To Creditor's Personal A/c	9			
		10,000			10,000

Problem 12. The Trial Balance of Lookwell Co. Ltd., taken out as on 31st December 1981 did not balance and the difference was entered in Suspense A/c. The following mistakes were traced out subsequently :—

(1) Sales Day Book total for October was undercast by Rs. 1,000.

(2) Purchase of a new equipment costing Rs. 9,475·75 has been posted to Purchases A/c.

(3) Discount received of Rs. 1,250 and Discount allowed of Rs. 850 in August 1981 have been posted to wrong sides of Discount A/c.

(4) A cheque for Rs. 1,025 received from Mr. Straightforward for goods sold to him on credit earlier, though entered correctly in Cash Book, has been posted in his account as Rs. 1,052.

(5) Stocks worth Rs. 2,500 taken for personal use of Mr. Dynamic, the Managing Director, has been entered in sales Day Book.

(6) While carrying forward, the total in Returns Inward Book has been taken as Rs. 674 instead of Rs. 647.

(7) An amount of Rs. 775 paid to the cashier Mr. Spendthrift, as salary for November 1981 has been debited to his personal account as Rs. 757.

Please pass the Journal entries (with all narration) and draw up the suspense A/c.

(I.I.B. Part I, November 1982)

Solution:

RECTIFYING JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Suspense A/c	Dr.		1,000·00	
	To Sales A/c				1,000·00
	(Being the mistake in totalling the Sales Book for the month of October, corrected)				

			Rs.	Rs.
(2)	Office Equipment A/c	Dr.	9,475·75	
	To Purchases A/c			9,475·75
	(Being the capital expenditure incurred for purchasing new equipment wrongly debited to Purchases account, now rectified)			
(3)	Suspense A/c	Dr.	800·00	
	To Discount A/c			800·00
	(Being discount received Rs. 1,250 wrongly debited instead of being credited, creating a suspense account credit balance of Rs. 2,500. Further, discount allowed Rs. 850 wrongly credited instead of being debited, creating a suspense account debit balance of Rs. 1,700. Hence, Suspense account is debited for the difference of Rs. 800 and discount account is credited for rectifying the net effect in the discount account)			
(4)	Straightforward's A/c	Dr.	27	
	To Suspense A/c			27
	(Being the excess credit given in the account of Mr. Straightforward, *i.e.*, Rs. 1,052 credited in place of Rs. 1,025 to be credited, now corrected)			
(5)	This entry will not affect the Suspense account. The amount is to be debited to the Drawings account of the Managing Director and is correctly credited in the Sales Day Books. Value of stock will automatically reduce by Rs. 2,500)			
(6)	Suspense A/c	Dr.	27	
	To Returns Inward A/c			27
	(Being the mistake in carry forward of totals in the Returns Inward Book, *i.e.*, taken as Rs. 674 instead of Rs. 647, rectified)			

			Rs.	Rs.
(7)	Salary A/c	Dr.	775	
	To Spendthrift's A/c			757
	To Suspense A/c			18
	(Being Salary amounting to Rs. 775 paid wrongly debited to the personal account of the employee as Rs. 757, corrected by crediting the difference in Suspense A/c)			

SUSPENSE ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
(1)	To Sales A/c	1,000		By Balance b/d *(Balancing figure)*	1,782
(3)	To Discount A/c	800	(4)	By Straightforward's A/c	27
(6)	To Returns Inward	27	(7)	By Salary	775
(7)	To Spendthrift's A/c	757			
		2,584			2,584

Problem 13 The following errors were committed by the Accountant of Geeta Dye chem .

(*a*) Cash Rs 350 paid to Triman Chemicals posted as Rs. 530.

(*b*) Purchase of stationery worth Rs. 150 remained unposted from the cash book.

(*c*) Rs. 260 paid for purchase of new office furniture was charged to office expenses account (*Ignore depreciation*).

(*d*) Credit sales to Trivedi and Co. of Rs. 300 was posted to the credit of their account.

(*e*) A purchase of Rs. 420 from Mantri and Co , was passed through the sales day book as Rs. 240.

How would you rectify these errors assuming that :—

(*i*) they were detected before preparing trial balance.

(*ii*) they were detected after preparing trial balance, but before preparing final accounts (the difference being taken to suspense account).

(*iii*) they were detected after preparing final accounts.

(*Narration to Journal Entries not required*).

(*I.I.B. Part I April 1970*)

JOURNAL ENTRY

Date	*Particulars*		*L F.*	*Debit amount*	*Credit amount*
				Rs.	Rs.
	Office furniture a/c	Dr.		260	
	To Office expenses a/c				260
	(Being purchase of office furniture wrongly debited to the office expenses account instead of office furniture account, now rectified)				

(*d*) Credit sales of Rs. 300 to Trivedi & Co. and has correctly been entered in the Sales Book, but it is posted to the credit of their account instead of being debited. To correct the error, double of the amount (Rs 600) will be posted to the debit of their account, so that the wrong credit of Rs 300 is converted into the debit of Rs. 300.

TRIVEDI AND COMPANY's ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To wrong side posting of sale of Rs. 300 on , now rectified		600				

(*e*) The error is that there is a wrong debit of Rs. 240 in the account of Mantri & Co. instead of credit of Rs. 420. Further, excess [illegible] Rs. 240 and purchases have been [illegible] entry will be to credit Mantri & [illegible] and Sales accounts with Rs. 420 and Rs. 240 respectively.

The following three entries make this clear :

Wrong Entry :	Mantri & Co.	Dr.	240	
	To Sales a/c			240
Correct Entry :	Purchases a/c	Dr.	420	
	To Mantri & Co.			420
Rectifying Entry :	Purchases a/c	Dr.	420	
	Sales a/c	Dr.	240	
	To Mantri & Co.			660

(ii) RECTIFICATION OF ERRORS AFTER PREPAIRING TRIAL BALANCE, BUT BEFORE PREPARING FINAL ACCOUNTS

If an error is discovered after the closing of the books and final statements of accounts have been prepared by placing the difference of the trial balance to the Suspense Account, one-sided errors are corrected by passing rectifying journal entries, wherein the account in which error lies is given a further debit or credit as required, and the other aspect of the journal entry is covered by giving credit or debit to the Suspense account. Two-sided errors are rectified in the same way as they would have been rectified before preparing trial balance.

RECTIFYING JOUNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(*a*)	Suspense A/c Dr.		180	
	To Triman Chemicals			180
	(Being cash payment of Rs. 350 to them on....... wrongly posted to their account as Rs. 530, now rectified)			
(*b*)	Stationery a/c Dr.		150	
	To Suspense A/c			150
	(Being stationery purchased correctly recorded in the cash book, but the same remainded unposted, now corrected.			
(*c*)	Office furniture A/c Dr.		260	
	To Office expenses a/c			260
	(Being purchase of office furniture wrongly debited to office expenses account, rectified			
(*d*)	Trivedi and Co. Dr.		600	
	To Suspense a/c			600
	(Being credit sales of Rs. 300 recorded correctly in the sales book, but posting is made on the wrong side in their account, now rectified)			
(*e*)	Purchases A/c Dr.		240	
	Sales a/c Dr.		420	
	To Mantri & Co.			660
	(Being purchases of Rs. 420 from them wrongly recorded in the sales day book as Rs. 240, now rectified)			

(iii) RECTIFICATION OF ERRORS AFTER PREPARING FINAL ACCOUNTS

At this stage the correction relating to errors affecting nominal accounts is carried out through profit and loss adjustment account. Balance of profit and loss adjustment account is then transferred to the capital account/s after the rectification of all the errors. The use of suspense account is also made wherever necessary.

By adopting this method, the businessman is able to rectify the errors of last year in such a way, that profit or loss of the current year is not influenced.

RECTIFYING JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(a)	Suspense A/c	Dr.		180	
	To Triman Chemicals				180
	(Being cash payment of Rs. 350 to them on......, wrongly posted to their account as Rs. 530, now rectified)				
(b)	Profit & loss adjustment A/c	Dr.		150	
	To Suspense A/c				150
	(Being purchase of stationery on...., correctly recorded in the cash book but remained unposted, now corrected)				
(c)	Office Furniture A/c	Dr.		260	
	To Profit & Loss Adjustment A/c				260
	(Being purchase of office furniture on ....., wrongly debited to office expenses account, now rectified. Depreciation ignored)				
(d)	Trivedi and Co.	Dr.		600	
	To Suspense A/c				600
	(Being credit sales of Rs. 300 on... , recorded correctly in the sales book, but posting is made on the wrong side in their account, now rectified)				

			Rs.	Rs.
(e)	Profit & Loss Adjustment A/c	Dr.	660	
	To Mantri & Co.			660
	(Being purchases of Rs. 420 from them on......, wrongly entered in the sales day book as Rs. 240, now corrected)			
(f)	Capital A/c	Dr.	550	
	To Profit & Loss Adjustment A/c			550
	(Being the net result of rectification of errors of the last accounting period transferred to the capital account without affecting the profit or loss of the current period)			

C

PROVISION FOR DOUBTFUL DEBTS AND DISCOUNT ON DEBTORS AND CREDITORS

Problem 1. What is the meaning of bad debts ? Why is it necessary to create Reserve for :

(*a*) Doubtful Debts ; (*b*) Discount on Debtors; and (*c*) Discount on Creditors.

Solution:

Bad Debts.

Bad Debts are irrecoverable debts from customers and are written off by debiting Bad Debts Account and crediting the personal accounts of the customers who have failed to pay. The debit balance of bad debts account represents a loss and is transferred to Profit and Loss Account. This amount is then shown as a deduction from the amount of debtors on the Assets side in the Balance Sheet.

Reserve for Doubtful Debts

In addition to the actual bad debts, there may also be some likely bad debts. A scrutiny of the accounts of the individual debtors at the end of the period may show that the recovery of some of the debts is doubtful. The amount of doubtful debts is calculated either by carefully examining the position of each debtor individually and totalling the amount due from doubtful debtors, or by calculating a fixed percentage of total debtors. This percentage is usually based upon the past experience of the business.

When the provision or reserve for doubtful debts is created for the first time, Profit and Loss A/c is debited and the Reserve for Doubtful Debts is created. Reserve for Doubtful Debts is shown in the Balance Sheet as a deduction from Sundry Debtors, as shown on the next page :

BALANCE SHEET

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
		Sundry Debtors	10,000
		Less: Bad Debts written off	500
			9,500
		Less: Reserve for Doubtful Debts @ 5%	475
			9,025

Reserve for Discount on Debtors

Usually cash discount is allowed to the customers who make the payment of their dues within the stipulated time limit Therefore, a provision is made for the expected loss on account of discount, that will have to be allowed to the firm's debtors on payment of their accounts. The main object in so doing is to see that the items of Sundry Debtors is not shown in the Balance Sheet at anything beyond its likely realisable amount. No discount is allowed on the debts that become bad. Thus, this provision is calculated on the amount of good debts only, *i.e.*, on the amount of debtors *less* bad debts written off *less* the provision for doubtful debts.

This provision is made by way of a certain percentage on the amount of good debtors. Profit and Loss Account is debited and Provision for Discount on Debtors account is credited The credit balance of the Provision or Reserve for Discount on Debtors account is then shown by way of deduction from the item of Sundry debtors on the Assets side of the Balance Sheet :

BALANCE SHEET

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
		Sundry Debtors	10,000
		Less: Bad debts written off	500
			9,500
		Less: Reserve for Doubtful Debts @ 5% on Rs. 9,500	475
			9025
		Less: Reserve for Discount on Debtors @2½% on Rs. 9,025	226
			8,799

Provision for Discount on Creditors

Prompt payments to creditors enables a businessman to receive discount from them. Thus Provision for Discount on Creditors is provided for an expected gain in the shape of discount that will be received from the creditors for making timely payments to them. This is calculated generally by way of a certain percentage calculated on the balance of the creditors on the last day of the accounting period. Provision for discount on Creditors account is debited and the Profit and Loss account is credited. The debit balance on Provision for discount on Creditors account is shown by way of deduction from the item of Sundry Creditors on the Liabilities side of the Balance Sheet, as shown below :

BALANCE SHEET

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Sundry Creditors	8,000		
Less : Provision for Discount on Creditors @ $2\frac{1}{2}\%$ on Rs. 8,000	200		
	7,800		

Problem 2. On 1st January 1964 Messrs Gokal & Co., had a bad debt provision of Rs. 650. On 31st December 1964, the total debts amounted to Rs 18,400 of which Rs. 400 were bad and had to be written off. The firm wants to maintain the Bad Debts Provision at 5 per cent of the debtors.

On 31st December 1965, total debts amounted to Rs. 10,320 out of which Rs. 320 had to be written off as bad debt. The provision to be maintained at 5% of the debtors.

Show the Bad Debts Account and Bad Debts Provision Account for 1964 and 1965. *(I.I.B. Part I, November 1966)*

Solution:

Ledger Accounts in the Books of M/s Gokal & Co.

Dr. BAD DEBTS ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1964		Rs.	1964		Rs.
Dec. 31	To S. Debtors	400	Dec. 31	By Transfer to Bad debts provision A/c	400
		400			400
1965			1965		
Dec. 31	To S. Debtors	320	Dec. 31	By Transfer to Bad debts provision A/c	320
		320			320

Dr. BAD DEBTS PROVISION ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1964		Rs.	1964		Rs.
Dec. 31	To Bad Debts A/c	400	Jan. 1	By Balance b/d	650
Dec. 31	To Balance c/d (Required @ 5% on Rs. 18 000)	900	Dec. 31	By Profit & Loss A/c (Required to make up the balance)	650
		1,300			1,300
1965			1965		
Dec. 31	To Bad Debts A/c	320	Jan. 1	By Balance b/d	900
Dec. 31	To Profit & Loss A/c (*Balancing figure*)	80			
Dec. 31	To Balance c/d (Required, @ 5% on Rs. 10,000)	500			
		900			900
			1966		
			Jan. 1	By Balance b/d	500

Note. The amount of the provision required has been calculated by deducting the amount of the bad debts from total debts.

Problem 3. On 31st December 1965, the debtors of Messrs X, Y, Z totalled Rs. 50,000 and a provision of 5% was made for bad and doubtful debts In 1966, total debts written off were Rs. 1,400. The debtors on 31st December 1966 were Rs. 40,000. In 1967, the total bad debts were Rs. 600 and the debtors on 31st December 1967 were Rs. 25,000. The provision of bad and doubtful debts has been maintained at 5%.

Show the Bad Debts and Provision for Doubtful Debts Account for the years 1966 and 1967.

(I.I.B. Part I. October 1968)

Solution :

In the Books of X, Y, Z,

BAD DEBTS ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1966 Dec. 31	To S. Debtors	1,400	1966 Dec. 31	By Provision for Doubtful Debts A/c	1,400
		1,400			1,400
1967 Dec. 31	To S. Debtors	600	1967 Dec. 31	By Provision for Doubtful Debts A/c	600
		600			600

PROVISION FOR DOUBTFUL DEBTS ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1966 Dec. 31	To Bad Debts A/c	1,400	1966 Jan. 1	By Balance b/d	2,50
Dec. 31	To Balance c/d (Balance required, @ 5% on Rs. 40,000)	2,000	Dec. 31	By Profit & Loss A/c (Amount required to make up the balance)	90
		3,400			3,4
1967 Dec. 31	To Bad Debts A/c	600	1967 Jan. 1	By Balance b/d	2,(
Dec. 31	To Profit & Loss A/c (*Balancing figure—the excess provision transferred*)	150			
Dec. 31	To Balance c/d Balance required @ 5% on Rs. 25,000	1,250			
		2,000			
			1968 Jan. 1	By Balance b/d	

Problem 4. The Sundry Debtors as at 31st December, 1969 were Rs. 40,000 and you are required to make a 5% reserve for Doubtful Debts and also a 5% Reserve for Discount as on that day. The actual bad debts during the year 1970 amounted to Rs. 1,600 and the discount allowed was Rs. 1,700. The Debtors at the close of the year 1970 amounted to Rs. 50,000 and Reserve for Doubtful Debts and Reserve for Discount are required to be maintained at 5%.

Give Journal Entries and accounts required for both the years.

(I.I.B. Part I, May 1971)

Solution :

JOURNAL ENTRIES

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1969				Rs.	Rs.
Dec. 31	Profit & Loss A/c	Dr.		2,000	
	To Reserve for Doubtful Debts A/c				2,000
	(Being provision for doubtful debts made @5% on Sundry Debtors amounting to Rs. 40,000 as on 31.12.1969)				
Dec. 31	Profit & Loss A/c	Dr.		1,900	
	To Reserve for Discount on Debtors				1,900
	(Being provision for discount on debtors made @5% on the balance amount of Debtors, *i.e.*, on Rs. 40,000—Rs. 2,000 =Rs. 38,000)				
1970					
	Bad Debts A/c	Dr.		1,600	
	Discount A/c	Dr.		1,700	
	To Sundry Debtors A/c				3,300
	(Being the amounts of Bad Debts and Discount allowed during the year 1970)				
Dec. 31	Reserve for Doubtful Debts A/c	Dr		1,600	
	To Bad Debts A/c				1,600
	(Being the entry to close Bad Debts account by transfer of Bad Debts to the Reserve for doubtful debts account)				

1970		Rs.	Rs.
Dec. 31.	Reserve for Discount on Debtors A/c Dr.	1,700	
	To Discount A/c		1,700
	(Being the entry to close Discount account by transfering the account to the Reserve for discount on Debtors Account)		
Dec. 31	Profit & Loss A/c Dr.	2,100	
	To Reserve for Doubtful Debts A/c		2,100
	(Being the additional provision made to bring the amount to Rs. 2,500, *i.e.*, 5% of the Debtors of Rs. 50,000 Old Provision : Rs. 2,000 *Less* : Bad Debts Rs. 1,600 Balance Rs. 400 New Provision (*as above*) Rs. 2,100 Total Required Rs. 2,500		
Dec. 31	Profit & Loss A/c Dr.	2,175	
	To Reserve for Discount on Debtors A/c		2,715
	(Being additional provision for Debtors made @ 5% on the likely realisable value of Sundry Debtors, *i.e.*, on Rs. 50,000—Rs. 2,500=Rs. 47,500 Old Provision Rs. 1,900 *Less* : Discount allowed Rs. 1,700 Balance Rs. 200 New Provision (*as above*) Rs. 2,175 Provision required, *i.e.*, 5% on Rs. 47,500 Rs. 2,375		

ACCOUNTS REQUIRED FOR 1969

Dr. RESERVE FOR DOUBTFUL DEBTS ACCOUNT *Cr.*

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1969			Rs.	1969			Rs.
Dec. 31	To Balance c/d		2,000	Dec. 31	By Profit & Loss A/c		2,000
			2,000				2,000

Dr. RESERVE FOR DISCOUNT ON DEBTORS ACCOUNT *Cr.*

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1969			Rs.	1969			Rs.
Dec. 31	To Balance c/d		1,900	Dec 31.	By Profit & Loss A/c		1,900
			1,900				1,900

PROFIT AND LOSS ACCOUNT
for the year ended 31st December, 1969

Dr. *Cr.*

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Reserve for Doubtful Debts A/c	2,000		
To Reserve for Discount on Debtors A/c	1,900		

BALANCE SHEET
as on 31st December, 1969

Liabilities	Amount	Assets	Details	Amount
	Rs.		Rs.	Rs.
		Sundry Debtors :	40,000	
		Less Reserve for Doubtful Debts @ 5% on Rs. 40,000	2,000	
			38,000	
		Less : Reserve for Discount on Debtors @ 5% on Rs. 38,000	1,900	36,100

CCOUNTS REQUIRED FOR 1970

BAD DEBTS ACCOUNT

Dr. Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs
1970	To Sundry Debtors		1,600	1970 Dec. 31	By Reserve for Doubtful Debts A/c		1,600
			1,600				1,600

DISCOUNT ACCOUNT

Dr. Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
970	To Sundry Debtors		1,700	1970 Dec. 31	By Reserve for Discount on Debtors A/c		1,7
			1,700				1,

RESERVE FOR DOUBTFUL DEBTS ACCOUNT

r.

ate	Particulars	L.F.	Amount	Date	Particulars	L.F.	A
			Rs.				
1970 Dec. 31	To Bad Debts A/c		1,600	1979 Jan. 1	By Balance b/d		
Dec. 31	To Balance c/d (Balance required, i.e., 5% of Rs. 50,000		2,500	Dec. 31	By Profit & Loss A/c (Amount requ red to make t the balance)		
			4,100				
				1971 Jan. 1	By Balance b/		

RESERVE FOR DISCOUNT ON DEBTORS ACCOUNT

Dr. **Cr.**

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1970			Rs.	1970			Rs.
Dec. 31	To Discount A/c		1,700	Jan. 1	By Balance b/d		1,900
Dec. 31	To Balance c/d (Balance required @ 5% on Rs. 47,500)		2,375	Dec. 31	By Profit & Loss a/c (Amount required to make up the balance)		2,175
			4,075				4,075
				1971 Jan. 1	By Balance b/d		2,375

PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 1970

Dr. **Cr.**

Particulars	Details	Amount	Particulars	Amount
	Rs.	Rs.		Rs.
To Reserve for Doubtful Debts for the period	2,500			
Add: Bad Debts during the period	1,600			
	4,100			
Less: Reserve for Doubtful Debts as on 1.1.1970	2,000	2,100		
To Reserve for Discount on Debtors for the period	2,375			
Add: Discount allowed during the period	1,700			
	4,075			
Less: Reserve for Discount on Debtors as on 1.1.1970	1,900	2,175		

BALANCE SHEET
as on 31st December, 1970

Liabilities	*Amount*	*Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
		Sundry Debtors :	50,000	
		Less : Reserve for Doubtful Debts @ 5% on Rs. 50,000	2,500	
			47,500	
		Less : Reserve for discount on Debtors @ 5% on Rs. 47,500	2,375	45,125

Problem 5. From the following particulars prepare (1) Reserve for Doubtful Debts Account, (2) Reserve for Discount to Debtors and (3) Reserve for Discount on Creditors for both the years.

Balances as on 1st January, 1970 :
Reserve for Doubtful Debts Rs. 1,000.
Reserve for Discount to Debtors Rs. 500 and
Reserve for Discount on Creditors Rs. 400.

Total Debtors as on 31st December, 1970 were Rs. 25,000 after writing off Bad Debts Rs. 600 and allowing discounts Rs. 200.

Total Debtors as on 31st December, 1971 were Rs. 20,000 after writing off Bad Debts Rs. 600 and allowing Discounts Rs. 50.

Total Creditors as on 31st December 1970 and 31st December 1971 were Rs. 15,000 and Rs. 10,000 respectively.

Discounts received during the years were Rs. 300 and Rs. 50.

Provide 5% as Reserve for Doubtful Debts, $2\frac{1}{2}$% as Reserve for Discount on Debtors and 2% as Reserve for Discount on Creditors.

(*I.I.B. Part 1, May 1972*)

Solution:

Dr. RESERVE FOR DOUBTFUL DEBTS ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1970			Rs.	1970			Rs.
Dec. 31	To Bad Debts A/c		600	Jan. 1	By Balance b/d		1,000
Dec. 31	To Balance c/d (Balance required @ 5% on Rs. 25,000)		1,250	Dec. 31	By Profit & Loss A/c (Amount required to make up the balance)		850
			1,850				1,850

Dr. RESERVE FOR DOUBTFUL DEBTS ACCOUNT Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1971			Rs.	1971			Rs.
Dec. 31	To Bad Debts A/c		600	Jan. 1	By Balance b/d		1,250
Dec. 31	To Balance c/d (Balance required @ 5% on 20,000)		1,000	Dec. 31	By Profit & Loss A/c (Amount required to make up the balance)		350
			1,600				1,600
				1972			
				Jan. 1	By Balance b/d		1,000

Dr. RESERVE FOR DISCOUNT TO DEBTORS ACCOUNT Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1970			Rs. P.	1970			Rs. P.
Dec 31	To Discount A/c		200·00	Jan. 1	By Balance b/d		500 00
Dec. 31	To Balance c/d (Balance required @ 2½% on Rs. 23,750, *i.e.*, Rs. 25,000 *Less* Rs 1,250)		593 75	Dec. 31	By Profit & Loss A/c (Amount required to make up the balance)		293·75
			793 75		—		793·75

Dr. RESERVE FOR DISCOUNT TO DEBTORS ACCOUNT Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1971			Rs. P.	1971			Rs. P.
Dec. 31	To Discount A/c		50 00	Jan. 1	By Balance b/d		[illegible]
Dec. 31	To Profit & Loss A/c (*Balancing figure*)		68·75				
Dec. 31	To Balance c/d (Balance required @ 2½% on Rs. 19,000 *i.e.*, Rs. 20,000 *Less* Rs. 1,000)		475·00				
			593·75				
				1972			
				Jan. [illegible]	[illegible]		

BAD DEBITS ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1970			Rs. P.	1970			Rs. P.
Dec. 31	To Sundry Debtors		600·00	Dec. 31	By Reserve for Doubtful Debts A/c		600·00
			600·00				600·00
1971				1971			
Dec. 31	To Sundry Debtors		600·00	Dec. 31	By Reserve for Doubtful Debts A/c		600·00
			600·00				600·00

DISCOUNT TO DEBTORS ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1970			Rs. P.	1970			Rs. P.
Dec. 31	To Sundry Debtors		200·00	Dec. 31	By Reserve for Discount to Debtors A/c		200·00
			200·00				200·00
1971				1971			
Dec. 31	To Sundry Debtors		50·00	Dec. 31	By Reserve for Discount to Debtors A/c		50·00
			50·00				50·00

RESERVE FOR DISCOUNT ON CREDITORS ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1970			Rs.	1970			Rs.
Jan. 1	To Balance b/d		400	Dec. 31	By Discount on Creditors A/c		300
Dec. 31	To Profit & Loss A/c (*Balancing figure*)		200	Dec. 31	By Balance c/d Balance required @ 2% on Rs. 15,000)		300
			600				600
1971				1971			
Jan. 1	To Balance b/d		300	Dec. 31	By Discount on Creditors A/c		50
				Dec. 31	By Profit & Loss Account (*Balancing figure*)		50
				Dec. 31	By Balance c/d (Balance required @ 2% on Rs. 10,000)		200
			300				300
1979							
Jan. 1	To Balance b/d		200				

DISCOUNT ON CREDITORS ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1970			Rs.	1970			Rs.
Dec. 31	To Reserve for Discount on Creditors A/c		300	Dec. 31	By Sundry Creditors		300
			300				300

Dr. DISCOUNT ON CREDITORS ACCOUNT Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1971			Rs.	1971			Rs.
Dec. 31	To Reserve for Discount on Creditors A/c		50	Dec. 31	By Sundry Creditors		50
			50				50

Problem 6. On 1st January 1975, the Provision for Bad Debts account showed a credit balance of Rs. 3,600. During the year the bad debts amounted to Rs. 2,800. The Debtors on 31st December, 1975 amounted to Rs. 96,000 and a provision of 5% for Doubtful Debts was maintained.

In 1976, the bad debts amounted to Rs. 1,200 and the Debtors at the end of the year amounted to Rs. 50,000 on which a provision of 5% for bad debts was to be maintained.

Show for the years 1975 and 1976 :

(*i*) Provision for Doubtful Debts Account, and

(*ii*) How the relevant items will appear in the Profit and Loss Account and Balance Sheet. (*I.I.B. Part I. May, 1977*)

Solution :

(*i*) PROVISION FOR DOUBTFUL DEBTS ACCOUNT

Dr Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1975			Rs.	1975			Rs.
Dec. 31	To Bad Debts A/c		2,800	Jan. 1	By Balance b/d		3,600
Dec. 31	To Balance c/d (Balance required @ 5% on Rs 96,000)		4,800	Jan. 31	By Profit & Loss A/c (*Balancing figure*)		4,000
			7,600				7,600
1976			Rs.	1976			Rs.
Dec. 31	To Bad Debts A/c		1,200	Jan. 1	By Balance b/d		4,800
Dec. 31	To Profit & Loss A/c (*Balancing Figure*)		1,100				
Dec. 31	To Balance c/d (Balance required @ 5% on Rs. 50,000)		2,500				
			4,800				4,800
				1977			
				Jan. 1	By Balance b/d		2,500

PROFIT AND LOSS ACCOUNT
For the year ended 31st December, 1975

Dr. Cr.

Particulars	Details	Amount	Particulars	Amount
	Rs.	Rs.		Rs.
To Provision for Doubtful Debts for the period	4,800			
Add: Bad Debts during the period	2,800			
	7,600			
Less: Provision for doubtful debts as on 1.1.1975	3,600	4,000		

PROFIT AND LOSS ACCOUNT
For the year ended 31st December, 1976

Dr. Cr.

Particulars	Amount	Particulars	Details	Amount
	Rs.		Rs.	Rs.
		By Provision for Doubtful Debts as on 1.1.1976	4,800	
		Less: Bad Debts during the period	1,200	
			3,600	
		Less: Provision for doubtful debts provided on 31.12.76	2,500	1,100

BALANCE SHEET
as on 31st December, 1975

Liabilities	Amount	Assets	Details	Amount
	Rs.		Rs.	Rs.
		Sundry Debtors	96,000	
		Less: Provision for Doubtful Debts @ 5%	4,800	91,200

BALANCE SHEET
as on 31st December, 1976

Liabilities	*Amount*	*Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
		Sundry Debtors	50,000	
		Less : Provision for Doubtful Debts @ 5%	2,500	47,500

Problem 7. From the following information pass the relevant entries in the Journal of Midland Ltd. (*Narration not necessary*) :

	Rs.
(*i*) Debtors as on 31st December, 1976 (including Rs. 1,000 which are bad debts) ...	41,000
(*ii*) Balance as on 31st December, 1976:	
Provision for bad debts a/c ...	3,900
Provision for discount a/c ...	1,000
(*iii*) Provision for bad debts is to be maintained at 10% on Debtors	
(*iv*) Provision for discount to be allowed is to be maintained at 2½% on debtors.	
(*Show your workings*)	

(*I.I.B Part I November, 1977*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF
M/S. MIDLAND LTD.

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
1976 Dec. 31	Bad Debts A/c	Dr.		1,000	
	To Sundry Debtors A/c				1,000
	(Being the amount of bad debts written off)				
Dec. 31	Profit & Loss A/c	Dr.		100	
	To Provision for bad debts A/c				100
	(Being additional provision made for doubtful debts @ 10% on Rs. 40,000. *i.e.*, Sundry Debtors Rs. 41,000 minus bad-debts written off Rs. 1,000)				

		Rs.	Rs.
1976	Amount required to be provided for bad debts = Rs. 4,000 *Less* : Amount already provided = Rs. 3,900 Additional provision made = Rs. 100		
Dec. 31	Provision for Discount A/c Dr.	100	
	To Profit & Loss A/c		100
	(Being amount of excess provision already made, adjusted)		
	Provision for discount is required to be made @ 2½% on good debts which are Rs. 36,000, *i.e.*, Sundry Debtors Rs. 41,000 *minus* bad debts written off Rs. 1,000 *minus* provision for bad debts already provided Rs. 3,900 *minus* additional provision for bad debts made Rs. 100. Amount already provided for discount on debtors = Rs. 1,000 *Less* : Amount required to be provided @ 2½% on Rs. 36,000 = Rs. 900 Amount adjusted = Rs. 100		

BALANCE SHEET OF
M/S. MIDLAND LTD.
as on 1st December, 1976

Liabilities	*Amount*	*Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
		Sundry Debtors	41,000	
		Less : Bad debts written off	1,000	
			40,000	
		Less : Provision for Bad debts @ 10%	4,000	
			36,000	
		Less : Provision for discount @ 2½%	900	35,100

Problem 8. On 1st January 1978, Messrs. Ramanlal and Company had a Reserve for bad debts of Rs. 6,067 against their book debts. During the year ended 31st December, 1978 Rs. 6,524 proved to be bad and they desire to maintain the Reserve for Bad Debts at 4 per cent on book debts which stood at Rs. 1,93,560 before writing off bad debts.

Show the Journal entries in the books of the firm to record these transactions as on 31st December, 1978.

(I.I.B. Part I, April 1979)

Solution :

JOURNAL ENTRIES IN THE BOOKS OF
RAMANLAL & COMPANY

Date	Particulars	L.F.	Debit Amount	Credit Amount
			Rs. P.	Rs. P.
1978				
Dec. 31	Bad debts A/c Dr.		6,524·00	
	To Sundry Debtors A/c			6,524·00
	(Being the amount of bad debts for the year ended 31st December 1978 written off)			
Dec. 31	Profit & Loss A/c Dr.		7,938·44	
	To Reserve for doubtful debts A/c			7,938·44
	(Being the additional provision made to bring the amount to Rs. 7,481·44, *i.e.*, 4% of the book debts of Rs. 1,87,036 (Rs. 1,93,560—Rs. 6,524) :			
	Rs. P.			
	Old provision 6,067·00			
	Add : New provision (as above) 7,938·44			
	14,005·44			
	Less : Bad debts 6,524·00			
	Total required 7,481·44			
Dec. 31	Reserve for doubtful debts A/c Dr.		6,524·00	
	To Bad debts A/c			6,524·00
	(Being the entry to close bad debts account by transfer of bad debts to the reserve for doubtful debts account)			

RESERVE FOR DOUBTFUL DEBTS ACCOUNT

Dr. Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F	Amount
1978			Rs. P.	1978			Rs. P.
Dec. 31	To Bad debts A/c		6·524·00	Jan. 1	By Balance b/d		6,067 000
Dec. 31	To Balance c/d (Amount required)		7,481·44	Dec. 31	By Profit & Loss A/c (Amount required to make up the balance)		7,938·44
			14,005·44				14,005·44
				1979 Jan. 1	By Balance b/d		7,481·44

BALANCE SHEET OF M/s. RAMANLAL & CO
as on 31st December, 1978

Liabilities	Amount	Assets	Details	Amount
	Rs. P.		Rs. P.	Rs. P.
		Sundry Debtors	1,93,560·00	
		Less : Bad debts	6,524·00	
			1,87,036·00	
		Less : Reserve for doubtful debts @ 4%	7,481·44	1,79,554·56

IX

DEPRECIATION

Problem I. Explain the different methods of providing Depreciation. *(I I B Part I. October 1972)*

Solution. All the Assets have either a definite or an estimated period of utility to the business in which they are used and as the period passes, their usefulness diminishes with the result that they have to be discarded when they are found useless. This diminution in value of the Assets consequent upon wear and tear, obsolescence, efflux of time or permanent fall in its market value is known as 'Depreciation'.

The method of providing for depreciation is to estimate how long the Asset in question will be of use to the business and then to charge off a proportionate amount to the Profit and Loss Account each year. ...

...he assets become useless, ...k value may also be brought to zero or to their scarp value. Further, if the loss sustained by way ...preciation in the value of the assest is not charged off to Profit and ... account each year, the annual final accounts will fail to show the facts.

The Journal Entry for providing depreciation is :

...te	Particulars		L.F.	Debit Amount Rs. P.	Credit Amount Rs. P
... Dec. 31	Depreciation A/c To the Asset A/c	Dr.			

This entry is passed every year with the amount of depreciation of that year. The effect of such an entry would be to reduce the book value of the Asset concerned from year to year and also to enable such a loss to be charged to Profit and Loss Account of each year.

PROFIT & LOSS ACCOUNT

Dr. Particulars	Amount Rs. P.	Particulars	Cr. Amount Rs. P.
To Depreciation on (*name of the asset*)			

BALANCE SHEET

Liabilities	Amount Rs. P.	Assets	Details Rs. P.	Amount Rs. P.
		Name of the Asset :	...	...
		Cost	...	
		Less : Depreciation		

Methods of Providing Depreciation

Different methods are adopted to write off depreciation.

Straight Line Method. (Also known as Fixed Percentage ...iginal Cost Method) : Under this method, a fixed percentage on ...iginal cost of the asset is charged each year so that the asset acc... may be reduced to zero or to its scrap value at the end of a de... period representing its estimated life.

It is calculated as :

$$\text{Amount of Depreciation} = \frac{\text{Original Cost} - \text{Estimated scarp...}}{\text{Expected effective life}}$$

It may also be expressed in terms of percentage of the origin...

If the life is 10 years and scarp value is nil, the depreciation will be 10% of the cost every year.

Diminishing Balance Method. Under this method also, the cost of the asset is written off over its estimated useful life. A certain percentage is applied to the book value at which the asset stands in the book in the beginning of the year.

$$\text{Depreciation at the end of first year} = \frac{\text{Original Cost} \times \text{Rate of Dep.}}{100}$$

$$\text{Depreciation at the end of second year} = \frac{{}^{*}\text{Written Down Value} \times \text{Rate}}{100}$$

*(Written Down Value=Original Cost — Depreciation provided). The procedure will be the same in the next years.

Digits Method. The depreciation is calculated annually by the under-noted formula.

$$\text{Depreciation} = \frac{(\text{Cost} - \text{Estimated scrap value}) \times \text{Remaining life of the asset}}{\text{Total of all digits representing the life in years}}$$

For example if the life of an asset is 5 years, the total of the digits is 15, *i.e.*, 5+4+3+2+1. In the first year, the depreciation is *Cost—Estimated scrap value* $\times \frac{5}{15}$. In the next year, the depreciation will be (*Cost—Estimated scrap value*) $\times \frac{4}{15}$, and so on.

Revaluation Method. The market value of the asset concerned is ascertained. Between the market value and the cost price, the lesser will be taken into account. The difference between the opening value and market value represents Depreciation. This method is generally used for providing depreciation on assets like closing stock, loose tools and patents, etc

Annuity Method. Purchase of the asset is considered as an Investment and so interest is charged on the opening balance of the assets each year at the rate agreed upon and a fixed amount is written off from the asset to the debit of Profit & Loss Account by way of depreciation. The amount of depreciation is ascertained by use of Annuity Tables. A specimen of such a table is given below :

ANNUITY TABLE

Years	3%	3½%	4%	4½%	5%
5	0·218355	0·221481	0·224627	0·227792	0·230975
8	0·142456	0·145477	0·148528	0·151610	0·154722
10	0·117231	0·120241	0·123291	0·126379	0·129505

This table shows how much is to be written off each year if the cost is Re. 1/- and the life and the rate of interest are envisaged.

For example, if the cost of an asset is Rs. 20,000, the rate of interest is 5% and the life is 5 years, the annual depreciation required will be Rs. 4,619·50 (Rs. 20,000 × 0·230975). The amount of depreciation includes interest at the stipulated rate, which will be credited to Profit & Loss Account at the end of each year as shown here below :

Dr. ASSET ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
Ist			Rs. P.	Ist.			Rs. P.
Year	To Bank A/c		20,000·00	Year	By Depreciation A/c		4,619·50
	To Interest @ 5% on Rs. 20,000·00		1,000·00		By Balance c/d		16,380·50
			21,000·00				21,000·00
IInd				IInd			
Year	To Balance b/d		16,380·50	Year	By Depreciation		4,619·50
	To Interest @ 5% on Rs. 16,380·50		819·02		By Balance c/d		12,580·02
			17,199·52				17,199·52
IIIrd				IIIrd			
Year	To Balance b/d		12,580·02	Year	By Depreciation		4,619·50
	To Interest @ 5% on Rs. 12,580·02		629·00		By Balance c/d		8,589·52
			13,209·02				13,209·02
IVth				IVth			
Year	To Balance b/d		8,589·52	Year	By Depreciation		4,619·50
	To Interest @ 5% on Rs. 8,589·52		429·48		By Balance c/d		4,399·50
			9,019·00				9,019·00
Vth			Rs. P.	Vth			Rs. P.
Year	To Balance b/d		4,399·50	Year	By Depreciation		4,619·50
	To Interest @ 5% on Rs. 4,399·50		220·00				
			4,619·50				4,619·50

PROFIT & LOSS ACCOUNT

Year	*Particulars*	*Amount*	*Year*	*Particulars*	*Amount*
		Rs. P.			Rs. P.
Ist	To Depreciation	4,619·50	Ist	By Interest	1,000·00
IInd	To Depreciation	4,619·50	IInd	By Interest	819·02
IIIrd	To Depreciation	4,619·50	IIIrd	By Interest	629·00
IVth	To Depreciation	4,619·50	IVth	By Interest	429·48
Vth	To Depreciation	4,619·50	Vth	By Interest	220·00

Sinking Fund Method. The asset is allowed to stand in the books at its original cost. A fixed amount is provided as depreciation and is debited to the Profit and Loss Account each year; and a corresponding amount of cash is invested every year in gilt-edged securities, the amount being such as will, during the life of the asset accumulate at compound interest to the sum required to replace the asset. This amount is determined with the help of Sinking Fund Table. A specimen of Sinking Fund table is given below :

SINKING FUND TABLE

Years	3%	3½%	4%	4½%	5%
5	0·188350	0·186481	0·184627	0·182792	0·180975
8	0·112456	0·110477	0·108528	0·106610	0·104722
10	0·087231	0·085241	0·083291	0·081379	0·079505

The table shows how much amount is to be invested if Re. 1/- is to be collected within a certain period, if interest can be earned at a certain stipulated rate

For example, if the interest is receivable @ 5%, the estimated life of the asset is 5 years, and the value of the asset is Rs. 20,000, the annual amount required will be Rs. 3,619·50 (0·180975 × Rs. 20,000). If this amount is invested each year and the interest received @ 5% p.a. is also reinvested, at the end of 5 years Rs. 20,000 will be available. The annual amount will be the amount of the annual depreciation.

DEPRECIATION FUND A/C

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1st		Rs. P.	1st		Rs. P.
Year	To Balance c/d	3,619·50	Year	By Depreciation	3,619·50
		3,619·50			3,619·50

2nd Year	To Balance c/d	7,419·97	2nd Year	By Balance b/d	3,619·50
				By Interest on Depreciation Fund Investment A/c @ 5% on Rs. 3,619·50	180 97
				By Depreciation	3,619·50
		7,419·97			7,419·97
3rd Year	To Balance c/d	11,410·45	3rd Year	By Balance b/d	7,419·97
				By Interest on Depreciation Fund Investment A/c @ 5% on Rs. 7,419·97	370·98
				By Depreciation	3,619·50
		11,410·45			11,410·45
4th Year	To Balance c/d	15,600·47	4th Year	By Balance b/d	11,410·45
				By Interest on Depreciation Fund Investment A/c @ 5% on Rs. 11,410·45	570·52
				By Depreciation	3,619·50
		15,600·47			15,600·47
5th Year	To the Asset A/c	20,000·00	5th Year	By Balance b/d	15,600·47
				By Interest on Depreciation Fund Investment A/c @ 5% on Rs. 15,600·47	780·03
				By Depreciation A/c	3,619·50
		20,000·00			20,000·00

Insurance Policy Method. An insurance policy is taken out for the amount required to replace the Asset at the end of the period of its

effective life. The amount of the premium payable to the Insurance Company each year is provided as depreciation.

Depletion Method. The total cost of the mine or quarry (where this method is used) is divided by the estimated quantity of coal or other minerals to be raised in order to calculate the rate of depreciation per tonne. This rate is multiplied by the output of coal or minerals during a particular period, which is the amount of depreciation to be charged on that mine or quarry during that period.

Machine Hour Rate Method. The total cost of the machine is divided by the number of estimated hours of the life of machine, in order to calculate the rate of depreciation per hour. This rate is multiplied by the working hours of the machine during the period, which gives the amount of depreciation to be charged.

Depreciation on Replacement Cost. In times of rising prices, for the purpose of calculating the amount of depreciation to be charged each year, the replacement cost of the asset at the end of its effective life is taken into account. This will insure sufficient fund to replace the old asset at the end of its working life.

Problem 2. A company whose accounting year is the calender year, purchased on 1st April 1967 machinery costing Rs. 30,000.

It purchased further machinery on 1st October 1967 costing Rs. 20,000, and on 1st July 1968 costing Rs. 10,000.

On 1st January 1969, one-third of the machinery which was installed on 1st April 1967 became obsolete and was sold for Rs. 3,000.

Show how the machinery account would appear in the books of the company. The depreciation be charged at 10% p.a.

(I I B. Part I, November 1970)

Solution:

In the Books of the Company.

MACHINERY ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1967		Rs.	1967		Rs.
April 1	To Cost of Machinery Purchased	30,000	Dec. 31	By Depreciation: @ 10% on Rs. 30,000 for 9 months Rs 2,250 and @ 10% on Rs. 20,000 for 3 months Rs 500)	2,750
Oct. 1	To Cost of Machinery purchased	20,000	Dec. 31	By Balance c/d	47,250
		50,000			50,000

Date	Particulars	Rs.	Date	Particulars	Rs.	Rs.
1968			1968			
Jan. 1	To Balance b/d	47,250	Dec. 31	By Depreciation : @ 10% on Rs. 47,250 for 1 year Rs. 4,725 and @ 10% on Rs. 10,000 for 6 months Rs. 500)		5,225
July. 1	To Cost of Machinery purchased	10,000	Dec. 31	By Balance c/d		52,025
		57,250				57,250
1969			1969			
Jan. 1	To Balance b/d	52,025	Jan. 1	By Machinery sold		3,000
			Jan. 1	By Loss on Machinery sold		
				Original Cost	10,000	
				Less : Depreciation provided for 9 months in 1967 @ 10% on Rs. 10,000	750	
				W.D.V.	9,250	
				Less : Depreciation provided for one year in 1968 @ 10% on Rs. 9,250	925	
				Written down Value of machinery sold	8,325	
				Less : Sale proceeds	3,000	5,325
	Total c/d	52,025		Total c/d		8,325

	Rs.			Rs.
Total b/fd	52,025		Total b/fd	8,325
		Dec. 21	By Depreciation @ 10% on Rs. 43,700 *i.e.*, Rs. 52,025—Rs. 8,325, the W.D.V. of machine sold)	4,370
		Dec. 31	By Balance c/d	39,330
	52,025			52,025

1970
Jan. 1 To Balance b/d 39,330

Note :

THE EXISTING MACHINERY CONSISTS OF

Date of Purchase	*Details*	*Original Cost*	*Depreciation Provided 1967*	*1968*	*1969*	*Written Down Value 31.12.1969*
		Rs.	Rs.	Rs.	Rs.	Rs.
1. 4.1967	Two-third of Machinery	20,000	1,500	1,850	1,665	14,985
1.10.1967	Machinery	20,000	500	1,950	1,755	15,795
1. 7.1968	Machinery	10,000	—	500	950	8,550
		50,000	2,000	4,300	4,370	39,330
1.4.1967	Depreciation on Machinery sold	10,000	750	925	—	8,325 (*Written Down Value as on 31.12.1968*)

Problem 3. A company, whose accounting year is calendar year, purchased on 1st April 1973 machinery costing Rs. 30,000. It purchased further machinery on 1st October 1973, costing Rs. 20,000

On 1st January 1975, one-third of the machinery installed on 1st April 1973 became obsolete and was sold for Rs. 3,000.

Depreciation is being written off on fixed instalment system at 10% per annum.

Prepare Machinery Account as would appear in the ledger of the company for the years 1974 and 1975. (*I B. Part I. May 1976*)

MACHINERY ACCOUNT

Dr.					Cr.
Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1973		Rs.	1973		Rs.
Apr. 1	To Cost of Machinery purchased	30,000	Dec. 31	By Depreciation (@ 10% p.a. on Rs. 30,000 for 9 months Rs. 2,250 and @ 10% p.a. on Rs. 20,000 for 3 months Rs. 500)	2,750
Oct. 1	To Cost of Machinery purchased	20,000	Dec. 31	By Balance c/d	47,250
		50,000			50,000
1974			1974		
Jan. 1	To Balance b/d	47,250	Dec. 31	By Depreciation (@10% p.a. on the total original cost of machinery on fixed instalment system, *i.e.*, on Rs. 50,000)	5,000
			Dec. 31	By Balance c/d	42,250
		47,250			47,250
1975			1975		
Jan. 1	To Balance b/d	42,250	Jan. 1	By Machinery sold	3,000
			Jan. 1	By Loss on Machinery sold : (Original cost 10,000 Dep. for '73 750 9,250 Dep. for '74 1,000 W.D.V. 8,250 Sale proceeds 3,000	5,250
	Total c/fd	42,250		Total c/fd	8,250

		Rs.			Rs.
1975	Total b/fd	42,250	1975	Total b/fd	8,250
			Dec. 31	By Depreciation (@ 10% on the orig. cost of the remaining machinery, *i.e.*, Rs. 50,000 *minus* Rs. 10,000 =Rs. 40,000)	4,000
			Dec. 31	By Balance c/d	30,000
		42,250			42,250
1970 Jan. 1	To Balance b/d	30,000			

Note :

THE EXISTING MACHINERY CONSISTS OF

Date of Purchase	*Details*	*Original Cost*	*Depriciation Provided* 1973	1974	1975	*Written Down Value 31.12.1975*
		Rs.	Rs.	Rs.	Rs.	Rs.
1.4.1973	Two-third of Machinery	20,000	1,500	2,000	2,000	14,500
1.10.1973	Machinery	20,000	500	2,000	2,000	15,500
		40,000	2,000	4,000	4,000	30,000
1.4.1973	Depreciation on Machinery sold	10,000	750	1,000	—	8,250 (*Written Down Value as on 1.1.1975*)

Problem 4. A company writes off depreciation on straight line basis on machinery at 10%. On 31st December 1975, the position was as under :

			Rs.
Cost of purchases to date	...	...	52,590
Depreciation written off to date	...	...	25,670

During 1976, an addition of Rs 2,480 was made to machinery A machine bought in 1972 for Rs. 2,800 was sold for Rs 800 during the year.

No depreciation is to be provided on assets sold during the year, while full depreciation is to be provided on assets acquired during the year.

You are required to show the Machinery Account for the year 1976. (*Show your workings fully.*)

(*I.I.B. Part I, November 1977*)

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1976		Rs.	1976		Rs.
Jan. 1	To Balance b/d	26,920	Dec. 31	By Depreciation	5,507
	To Purchases of New Machinery	2,480	Dec. 31	By Sales of Machinery	800
			Dec. 31	By Loss on sale of Machinery	880
			Dec. 31	By Balance c/d	22,213
		29,400			29,400
1977					
Jan. 1	To Balance b/d	22,213			

Working Note No. (1). Depreciation :

Original cost of total machinery purchased up to 31-12-1975	Rs. 52,590
Less : Depreciation Provided up to 31-12-1975	Rs. 25,670
Balance brought forward as on 1st January 1976	Rs. 26,920

Working Note No. (2). Depreciation :

Depreciation — 10% on straight line basis *i.e.*, on the original cost of Rs. 52,590.	Rs. 5,259
Add : Depreciation — 10% on additions made during the year on Rs. 2,480.	Rs. 248
	Rs. 5,507

Working Note No. (3). Loss on Sale of Machinery :

Original Cost of Machinery purchased in 1972			Rs. 2,800
Less : Depreciation provided @ 10% in			
	1972	Rs. 280	
	1973	Rs. 280	
	1974	Rs. 280	
	1975	Rs. 280	Rs. 1,120
Written down value as on 1st January 1976			Rs. 1,680
Less : Sale proceeds			Rs. 800
Loss on sale of the machinery			Rs. 880

Working Note No (4). Balance carried forward :

(a) Original Cost :

Cost of Purchases up to 31-12-1975	Rs. 52,590
Add : Additions made during the year	Rs. 2,480
Total Purchases upto 31-12-1976	Rs. 55,070
Less : Machinery sold during the period	Rs. 2,800
Original Cost of the machinery up to 31-12-1976	Rs. 52,270

(b) Depreciation :

Depreciation written off upto 31-12-1975	Rs. 25,670
Add : Depreciation provided during the year 1976 as per Working Note No. (2)	Rs. 5,507
	Rs. 31,177
Less : Depreriation on machinery sold during the year 1976 as per Working Note No. (3)	Rs. 1,120
Depreciation provided on the machinery up to 31-12-1976	Rs. 30,057

(c) Written down value as on 31-12-1976.

Original Cost upto 31-12-1976 as (a) above	Rs. 52,270
Less ; Depreciation provided upto 31-12-1976 as (b) above	Rs. 30,057
Written down value	Rs. 22,213

Problem 5. A company writes off depreciation at 10% p.a. on the diminishing balance. On 1st January 1971 the machinery account showed a balance of Rs. 1,49,000. It was discovered in 1971 that :

(a) Heavy repairs effected to Plants and Machinery (completed on 30th June 1969) were debited to the Machinery Account. The amount was Rs. 15,000 ; and

(b) A Machine cost Rs. 6,000 was entered in the Purchase Book on 1st October 1969.

The expenses on installation, Rs. 400 were debited to General Expenses Account.

Necessary corrections were to be made in 1971. On 30th June 1971 a machine which had cost Rs 20,000 on 1st January 1969 was disposed of for Rs. 15,000 and a new machine costing Rs. 30,000 was installed on the same date, the expenses on installing the same being Rs. 500.

Show the machinery accounts for the year ended 31st December 1971. *Please show your working in detail.*

(I.I B Part I, November 1973)

Solution :

MACHINERY ACCOUNT

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1971			1971		
Jan. 1	To Balance b/d	1,49,000	Jan. 1	By Repairs	15,000
Jan. 1	To Depreciation A/c	2,175	Jan. 1	By Depreciation	784
Jan. 1	To Purchases	6,000	June 30	By Bank	15,000
Jan. 1	To General expenses A/c	400	June 30	By Loss on sale of Machinery	390
June 30	To Bank	30,500	Dec. 31	By Depreciation	14,894
			Dec. 31	By Balance c/d	1,42,007
		1,88,075			1,88,075
1972					
Jan. 1	To Balance b/d	1,42,007			

Working Note (*a*) :

Heavy repairs effected to plants and machinery completed on 30th June, 1969 debited to the machinery account instead of being charged to repairs account :				Rs. 15,0
Depreciation charged upto 31-12-1970 :				
@ 10% for 6 months ending 31-12-1969	Rs.	750		
@ 10% for 1 year ending 31-12-1970 on the balance of Rs. 14,250 (Rs. 15,000—Rs. 750)	Rs.	1,425	Rs.	2,
Book value as on 1st January 1971			Rs.	12

The abovesaid rectification has been done in 1971 by passing following journal entry in the books of the company :

RECTIFYING JOURNAL ENTRY

Date	Particulars		L.F.	Debit Amount
				Rs.
1971				
Jan. 1	Repairs A/c	Dr.		15,000
	To Machinery A/c			
	To Depreciation A/c			

Working Note (*b*) :

Cost of machine entered in the Purchase Book on 1st October, 1969		Rs.	6,000
Expenses on installation debited to General expenses account		Rs.	400
Book valve as on 1st October, 1969		Rs.	6,400
Depreciation to be charged upto 31-12-1970 :			
@ 10% for 3 months ending 31-12-1969	Rs. 160		
@ 10% for 1 year ending 31-12-1970 on the balance of Rs. 6,240 (Rs 6,4000—Rs. 160)	Rs. 624	Rs.	784
Book valve as on 1st January 1971		Rs.	5,616

The value of the abovesaid machine has heen brought into the books by passing the following journal entry :

RECTIFYING JOURNAL ENTRY

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1971			Rs.	Rs.
Jan. 1	Machinery A/c	Dr.	5,616	
	Depreciation A/c	Dr.	784	
	To Purchases A/c			6,000
	To General expenses A/c			400

Working Note (*c*) :

Cost of machinery on 1st January 1969		Rs. 20,000
Depreciation charged upto 30th June 1971 :		
@ 10 % for 1 year ending 31-12-1969 on Rs. 20,000	Rs. 2,000	
@ 10% for 1 year ending 31-12-1970 on the balance Rs. 18,000 (Rs. 20,000—Rs. 2,000)	Rs. 1,800	
@ 10 % p.a. for 6 months ending 30-6-1971 on the balance Rs. 16,200 (Rs. 18,000—Rs. 1,800)	Rs 810	Rs. 4,610
Book Value as on 30.6.1971		Rs. 15,390
Sale proceeds of the machinery		Rs. 15,000
Loss on sale of Machinery		Rs. 390

The following journal entry has been passed to give effect to the sale :

JOURNAL ENTRY

Date	Particulars	L.F.	Debit Amount	Credit Amount
1971			Rs.	Rs.
June 30	Bank A/c	Dr.	15,000	
	Loss on sale of machinery A/c	Dr.	390	
	To Machinery A/c			15,390

Working Note (*d*) :

Cost of Machine purchased on 30th June, 1971	Rs.	30,000
Expenses on installation	Rs.	500
Total cost of the Machine purchased	Rs.	30,500

This has been brought into the book of accounts by passing the undernoted journal entry :

JOURNAL ENTRY

Date	Particulars	L.F.	Debit Amount	Credit Amount
1971			Rs.	Rs.
June 30	Machinery A/c	Dr.	30,500	
	To Bank or Supplier's A/c			30.500

Working Note (*c*) :

I.	Value of machinery as on 1st January 1971	Rs.	1,49,000
	Less : Book value of machinery as on 1.1.1971 wrongly entered in Machinery account instead of being charged to Repairs account—Working note (*a*)	Rs.	12,825
		Rs.	1,36,175
	Add : Book value of Machinery purchased on 1.10.1969 wrongly debited to Purchases Account and the installation charges debited to General expenses account—Working note (*b*)	Rs.	5,616
		Rs.	1,41,791
	Less : Book value of machinery sold as on 1.1.1971—Working note (*c*)	Rs.	16,200
	Book value of machinery as on 1st January 1971	Rs.	1,25,591

II.	Depreciation provided @ 10% on the book value of the Machinery Rs. 1,25,591 for the year ended 31.12.1971	Rs.	12,559
	Depreciation on Machinery sold @ 10% for 6 months ending 30.6.1971—Working note (*c*)	Rs.	810
	Depreciation on Machinery purchased on 30.6.1971 @ 10% p.a. for 6 months ending 31.12.1971 on the total cost of Rs. 30,500—Working note (*d*)	Rs.	1,525
	Total amount of depreciation provided for the year ending 31.12.1971	Rs.	14,894

The journal entry for the same is:

JOURNAL ENTRY

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1971			Rs.	Rs.
Dec. 31	Depreciation A/c Dr.		14,894	
	To Machinery A/c			14,894

Problem 6. Reliance Ltd. writes off depreciation on Plant and Machinery at 10% p.a. on the Reducing Balance Method. On 1st January 1976 the Plant and Machinery Account showed a balance of Rs. 29,800.

It was discovered in 1976 that:

(*i*) Repairs effected to the Plant on 30th June 1974 were debited to Plant and Machinery Account. The amount was Rs. 3,000.

(*ii*) A Machine costing Rs. 1,200 was entered in the Purchases Book on 1st October 1974. The expenses on installation Rs 80 were debited to General expenses account.

Necessary corrections were to be made in 1976.

During the year, on 30th June, a machine which had cost Rs. 4,000 on 1st January 1974 was sold for Rs. 3,000 and a new machine costing Rs. 6,000 was installed on the same date, the erection expenses being Rs. 100.

Show the Plant and Machinery Account for the year 1976

Show your workings in detail.

(*I I B Part I, May 1977*)

Solution.

Working Notes:

(1) Repairs amounting to Rs 3,000 to the Plant on 30th June 1974 wrongly debited to Plant and Machinery Account instead of being debited to Repairs account:

(5) CALCULATION OF DEPRECIATION TO BE PROVIDED

as on 31st December, 1976

(a) Book Value as on 31 December 1976.

	Rs.
Book value of the Machinery as on 1st January, 1976	29,800·00
Less : Amount wrongly debited to the account on 30.6.1974, now rectified (Working Note No. 1)	2,565·00
	27,235·00
Add : Amount wrongly charged to Purchases and General expenses accounts on 1.10.1974, now rectified (Working Note No. 2)	1,123·20
Adjusted value of Plant and Machinery as on 1.1.1976	28,358·20
Less : Depreciation provided on the Machinery sold on 30th June 1976 (Working Note No. 3)	162·00
	28,196·20
Less : Book value of machine sold on 30.6.1976 (Working Note No 3)	3,078·00
	25,118·20
Add : Machinery purchased on 30.6 1976	6,100·00
Book value of Machinery on 31 12. 1976 (before providing depreciation)	31,218·20

(b) Depreciation for the year ending 31st December, 1976

Depreciation @ 10% provided for 1 year on Rs. 25,118·20	2,511·82
Depreciation @ 10% provided for 6 months on Rs. 6,100 00	305·00
Total Depreciation to be provided on 31 12 1975	2,816·82

(c) Book Value as on 31st December, 1976 (After providing depreciation) :

(a) Book value before depreciation	31,218·20
Less : (b) Depreciation for the year	2,816·82
Book value	28,401·38

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit Amount	Credit Amount
1976			Rs. P.	Rs. P.
Dec. 31	Depreciation on Machinery A/c Dr.		2,816·82	
	To Plant and Machinery A/c			2,816·82
	(Being depreciation provided on Plant & Machinery @ 10% for one year on Rs. 25,118·20 and on Rs. 6,100 for 6 months ending 31.12.1976, *i.e.*, Rs. 2,511·82+Rs. 305·00)			
Dec. 31	Profit & Loss A/c Dr.		2,978·82	
	To Depreciation on Machinery A/c			2,978·82
	(Being Depreciation provided on Plant & Machinery during the year transferred to Profit & Loss A/c (Rs. 2,816·82 +Rs. 162·00).			

In the Books of Reliance Ltd.

PLANT AND MACHINERY ACCOUNT

Dr. *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
1976		Rs. P.	1976		Rs. P.
Jan. 1	To Balance b/d	29,800·00	Jan. 1	By P & L A/c (Working Note 1)	2.565·00
Jan. 1	To P & L A/c (Working Note 2)	1.123·20	June 30	By Depreciation (Working Note 3)	162·00
June 30	To Bank A/c (Working Note 4)	6,100·00	June 30	By Bank A/c	3,000·00
				By Loss on sale of Machinery (Working Note 3)	78·00
			Dec. 31	By Depreciation A/c (Working Note 5)	2,816·82
			Dec. 31	By Balance c/d	28,401·38
		37,023·20			37,023·20
1977					
Jan. 1	To Balance b/d	28,401·38			

Problem 7. A Company purchased second-hand machinery on 1st January 1974, for Rs. 37,000 and immediately spent Rs. 3,000 on its erection. On 1st July 1975, it purchased another machine for Rs. 10,000 and on 1st July 1976, it sold off the first machine for Rs. 28,000 and bought another for Rs. 25,000. On 1st July 1977, the second machine was also sold off for Rs. 2,000.

Depreciation was provided on the machinery at the rate of 10% p.a. on the original cost annually on 31st December. In 1975, however, the Company changed the method of providing depreciation and adopted the written down value method, rate of depreciation being 15% p.a.

Give Machinery account for the four years commencing from the acquistion of first machine. Compute to the nearest rupee. *Give full working.*

(I.I.B. Part I, November 1979)

Solution :

Dr. MACHINERY ACCOUNT Cr.

Date	Particulars	Details	Amount	Date	Particulars	Details	Amount
		Rs.	Rs. P.			Rs.	Rs. P.
1974				1974			
Jan. 1	To Cash (cost of machine No. 1)		37,000·00	June 30	By Depreciation (@ 10% p.a. on Rs. 40,000 for 6 months)		2,000 00
	To Cash (erection charges)		3,000·00	Dec. 31	By Depreciation (@ 10% p.a. on Rs. 40,000 for 6 months)		2,000 00
				Dec. 31	By Balance c/d		36,000·00
			40,000·00				40,000 00

Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.	Rs. P.
1975				1975			
Jan. 1	To Balance b/d (Machine No. 1)		36,000·00	June 30	By Depreciation. On Machine No. 1 (@ 15% p.a. for 6 months on the written down value of Rs. 36,000)		2,700·00
July 1	To Cash (Cost of Machine No. 2)		10,000·00				
				Dec. 31	By Depreciation : (a) On Machine No. 1 (@ 15% p.a. for 6 month on the written down value of Rs. 36,000)	2,700	
					(b) On Machine No. 2 (@ 15% p.a. for 6 months on Rs. 10,000)	750	3,450·00
				Dec. 31	By Balance c/d : (a) Machine No. 1 (36,000—2,700—2,700)	30,600	
					(b) Machine No. 2 (10,000—750)	9,250	39,850·00
			46,000·00				46,000·00

Date	Particulars	Rs.	Rs. P.	Date	Particulars	Rs. P.	Rs. P.
1976				1976			
Jan. 1	To Balance b/d			June 30	By Depreciation :		
	(a) Machine No. 1	30,600·00			(a) On Machine No. 1 (@ 15% p.a. for 6 months on the W.D.V. of Rs. 30,600)	2,295·00	
	(b) Machine No. 2	9,2 0·00	39,850·00		(b) On Machine No. 2 (@ 15% p.a. for 6 month on the W.D.V. of Rs. 9,250)	693·75	2,988·75
July 1	To Cash (Cost of Machine No. 3)		25,000·00	July 1	By Cash (Sale proceeds of Machine No. 1)		28,000·00
				July 1	By Loss on sale of Machinery [Machine No. 1 of the W.D.V. of Rs. 28,305 (30,600—2,295) sold for Rs. 28,000]		305·00
				Dec. 31	By Depreciation :		
					(a) On Machine No. 2 (@15% p.a. for 6 months on W.D.V. of Rs. 9,250)	693·75	
					(b) On Machine No. 3 (@ 15% p.a. for 6 months on the cost of Rs. 25,000)	1,875·00	2,568·75
				Dec. 31	By Balance c/d		
					(a) Machine No. 2 (Rs. 9,250—693·75—693·75)	7,862·50	
					(b) Machine No. 3 (Rs. 25,000—1,875)	23,125·00	30,987·50
			64,850·00				64,850·00

Date	Particulars	Rs. P.	Rs. P.	Date	Particulars	Rs. P.	Rs. P.
1977				1977			
Jan. 1	To Balance b/d			June 30	By Depreciation :		
	(a) Machine No. 2	7,862·50			(a) On Machine No. 2 (@ 15% p.a. for 6 months on the W.D.V. of Rs. 7,862·50)	589·69	
	(b) Machine No. 3	23,125·00	30,987·50		(b) On Machine No. 3 (@ 15% p.a. for 6 months on the W.D.V. of Rs. 23,125)	1,734·37	2,324·06
				July 1	By Cash (Sale proceeds of Machine No. 2)		2,000·00
				July 1	By Loss on sale of Machinery [Machine No. 2 of the W.D.V. of Rs. 7272·81 (Rs. 7,862·50—589·69) sold for Rs. 2,000]		5,272·81
				Dec. 31	By Depreciation : On Machine No. 3 (@ 15% p.a. on the W.D.V. of Rs. 23,125 for 6 months)		1,734·38
				Dec. 31	By Balance c/d (Rs. 23,125—1,734·37—1734·38) Machine No. 3		19,656·25
			30,987·50				30,987·50

Problem 8. A company purchased a lease for Rs. 30,000 on 1st January 1976. It is to be renewed at the end of three years. For this purpose a depreciation fund is established. The depreciation fund investments will realise 5%. Sinking Fund Table shows that Re. 0·317209 must be invested each year to obtain Re. 1 at the end of 3 years, the rate of interest being 5%.

On 31st December, 1978 the investments were realised for Rs. 19,400. A new lease was purchased on the same date for Rs. 35,000. The balance at bank before realisation of investments was Rs. 20,000, Give Journal entries in the books of the company.

(*I.I.B. Part I, October 1980*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF THE COMPANY

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1976			Rs.	Rs.
Jan. 1	Lease A/c Dr.		30,000	
	To Bank A/c			30,000
	(Being purchase of lease as per agreement)			
Dec. 31	Depreciation A/c Dr.		9,516·27	
	To Depreciation Fund A/c			9,516·27
	(Being the annual depreciation provided as per Sinking Fund Table *i.e.,* Rs. 30,000×0·317209)			
	Depreciation Fund Investment A/c Dr.		9,516·27	
	To Bank A/c			9,516·27
	(Being the purchase of investments against the Depreciation Fund)			
1977				
Dec. 31	Bank A/c Dr.		475·81	
	To Interest on Depreciation Fund Investment A/c			475·81
	(Being Interest received at the rate of 5% on Rs. 9,516·27)			
Dec. 31	Interest on Depreciation Fund Investment A/c Dr.		475·81	
	To Depreciation Fund A/c			475·81
	(Being transfer of the interest received to Depreciation Fund Account)			

Dec. 31	Depreciation A/c	Dr.	9,516·27	
	To Depreciation Fund A/c			9,516·27
	(Being the annual instalment of depreciation as per Sinking Fund Table credited to Depreciation Fund A/c)			
Dec. 31	Depreciation Fund Investment A/c	Dr.	9,992·08	
	To Bank A/c			9,992·08
	(Being the purchase of investments for the annual instalment and the interest received, *i.e.*, Rs. 9,516·27+Rs. 475·81)			
1978				
Dec. 31	Bank A/c	Dr.	975·41	
	To Interest on Depreciation Fund Investment A/c			975·41
	(Being interest received at the rate of 5% on Rs. 19,508·35, *i.e.*, Rs. 9,516·27 + Rs. 9,992·08)			
Dec. 31	Interest on Depreciation Fund Investment A/c	Dr.	975·41	
	To Depreciation Fund A/c			975·41
	(Being transfer of the interest to the Depreciation Fund Account)			
Dec. 31	Depreciation A/c	Dr.	9,516·27	
	To Depreciation Fund A/c			9,516·27
	(Being the annual instalment of Depreciation as per Sinking Fund Table transferred to Depreciation Fund Account)			
Dec. 31	Bank A/c	Dr.	19,400·00	
	To Depreciation Fund Investment A/c			19·400·00
	(Being the sale proceeds of investments)			
	Depreciation Fund A/c	Dr.	108·35	
	To Depreciation Fund Investment A/c			108·35
	(Being the loss on sale of Depreciation Fund investments transferred to the Depreciation Fund Account)			

Depreciation Fund A/c	Dr.	30,000·00	
To Lease A/c			30,000·00
(Being the amount of the lease written off by transfer to the Depreciation Fund Account)			
Profit & Loss A/c	Dr.	108·32	
To Depreciation Fund A/c			108·32
(Being the balance left in Depreciation Fund Account transferred to Profit & Loss Account)			
Lease A/c	Dr.	35,000·00	
To Bank A/c			35,000·00
(Being purchase of a new lease by investing the sale proceeds of the old lease Depreciation Fund Investments *i.e.*, Rs. 19,400 and balance from the bank balance)			

LEDGER ACCOUNTS IN THE BOOKS OF THE COMPANY :

Dr. LEASE ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1976		Rs.	1976		Rs.
Jan. 1	To Bank A/c	30,000·00	Dec. 31	By Balance c/d	30,000·00
1977			1977		
Jan. 1	To Balance b/d	30,000·00	Dec. 31	By Balance c/d	30,000·00
1978			1978		
Jan. 1	To Balance b/d	30,000·00	Dec. 31	By Depreciation Fund	30,000·00
Dec. 31	To Bank A/c	35,000·00	Dec. 31	By Balance c/d	35,000·00
		65,000·00			65,000·00
1979					
Jan. 1	To Balance b/d	35,000·00			

DEPRECIATION FUND ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1976			1976		
Dec. 31	To Balance c/d	9,516·27	Dec. 31	By Depreciation A/c	9,516·27
1977			1977		
Dec. 31	To Balance c/d	19,508·35	Jan. 1	By Balance b/d	9,516·27
			Dec. 31	By Interest on Dep. Fund Invest. A/c	475·81
			Dec. 31	By Depreciation A/c	9,516·27
		19,508·35			19,508·35
1978			1978		
Dec. 31	To Dep. Fund Invest. A/c	108·35	Jan. 1	By Balance b/d	19,508·35
Dec. 31	To Lease A/c	30,000·00	Dec. 31	By Interest on Dep. Fund Invest. A/c	975·41
			Dec. 31	By Depreciation A/c	9,516·27
			Dec. 31	By P & L A/c	108·32
		30,108·35			30,108·3

DEPRECIATION FUND INVESTMENT ACCOUNT

Dr. C

Date	Particulars	Amount	Date	Particulars	Amou
		Rs.			R
1976			1976		
Dec. 31	To Bank A/c	9,516·27	Dec. 31	By Balance c/d	9,516
1977			1977		
Jan. 1	To Balance b/d	9,516·27	Dec. 31	By Balance c/d	19,50
Dec. 31	To Bank A/c	9,992·08			
		19,508·35			19,50
1978			1978		
Jan. 1	To Balance b/d	19,508·35	Dec. 31	By Bank (Sale proceeds)	19,4
			Dec. 31	By Depreciation Fund A/c (Loss)	1
		19,508·35			19,

INTEREST ON DEPRECIATION FUND INVESTMENT ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1977			1977		
Dec. 31	To Depreciation Fund A/c	475·81	Dec. 31	By Bank A/c	475·81
1978			1978		
Dec. 31	To Depreciation Fund A/c	975·41	Dec. 31	By Bank A/c	975·41

Problem 9. A machine was leased for Rs. 35,000. The cost of erection was Rs. 5,000. The machine is to be replaced at the end of 4 years. For this purpose an insurance policy is taken out, the annual premium being Rs. 9,200. At the end of 4 years, a new machine was leased for Rs. 45,000.

Please show the ledger accounts, as it would appear for 4 years.

(*a*) Machinery Account.
(*b*) Depreciation Fund Account.
(*c*) Depreciation Fund Policy Account.

(*I.I.B. Part I, November 1981*)

Solution :

JOURNAL ENTRIES

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
Ist Year					
Jan. 1	Machinery A/c	Dr.		40,000	
	To Bank A/c				40,000
	(Being the machine leased for Rs. 35,000/- and a sum of Rs. 5,000/- incurred towards its erection)				
Jan. 1	Depreciation Fund Policy A/c	Dr.		9,200	
	To Bank A/c				9,200
	(Being the annual premium paid to the Insurance Company for replacing the machine at the end of 4th year)				
Dec. 31	Profit & Loss A/c	Dr.		9,200	
	To Depreciation Fund A/c				9,200
	(Being the annual depreciation Provided equal to the amount paid for insurance premium)				

Date	Particulars		Rs.	Rs.
IInd Year				
Jan. 1	Depreciation Fund Policy A/c	Dr.	9,200	
	To Bank A/c			9,200
	(Being the annual premium paid to the Insurance Company.)			
Dec. 31	Profit & Loss A/c	Dr.	9,200	
	To Depreciation Fund A/c			9,200
	(Being the annual depreciation provided)			
IIIrd Year				
Jan. 1	Depreciation Fund Policy A/c	Dr.	9,200	
	To Bank A/c			9,200
	(Being the annual premium paid to the Insurance Company)			
Dec. 31	Profit & Loss A/c	Dr.	9,200	
	To Depreciation Fund A/c			9,200
	(Being the annual Depreciation provided)			
IVth Year				
Jan. 1	Depreciation Fund Policy A/c	Dr.	9,200	
	To Bank A/c			9,200
	(Being the annual premium paid to the Insurance Company)			
Dec. 31	Profit & Loss A/c	Dr.	9,200	
	To Depreciation Fund A/c			9,200
	(Being the annual depreciation provided)			
Dec. 31	Bank A/c	Dr.	40,000	
	To Depreciation Fund Policy A/c			40,000
	(Being the amount received from the Insurance Company at the end of 4th year for the replacement of the Machine)			

			Rs.	Rs.
Dec. 31	Depreciation Fund Policy A/c To Depreciation Fund A/c (Being the profit from the policy *i.e.*, claim Rs. 40,000—Rs. 36,800, the premium paid)	Dr.	3,200	3,200
Dec. 31	Depreciation Fund A/c To Machinery A/c (Being the Machinery Account written off at its original cost by transferring to the Depreciation Fund Account)	Dr.	40,000	40,000
Dec. 31	Machinery A/c To Bank A/c (Being a new machine leased)	Dr.	45,000	45,000

LEDGER ACCOUNTS:

MACHINERY ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1st Year		Rs.	1st Year		Rs.
Jan. 1	To Bank A/c	40,000	Dec. 31	By Balance c/d	40,000
2nd Year			2nd Year		
Jan. 1	To Balance b/d	40,000	Dec. 31	To Balance c/d	40,000
3rd Year			3rd Year		
Jan. 1	To Balance b/d	40,000	Dec. 31	By Balance c/d	40,000
4th Year			4th Year		
Jan. 1	To Balance b/d	40,000	Dec. 31	By Depreciation Fund A/c	40,000
Dec. 31	To Bank A/c	45,000		By Balance c/d	45,000
		85,000			85,000
5th Year					
Jan. 1	To Balance b/d	45,000			

DEPRECIATION FUND ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1st Year			1st Year		
Dec. 31	To Balance c/d	9,200	Dec. 31	By Profit & Loss A/c	9,200
2nd Year			2nd Year		
Dec. 31	To Balance c/d	18,400	Jan. 1	By Balance b/d	9,200
			Dec. 31	By Profit & Loss A/c	9,200
		18,400			18,400
3rd Year			3rd Year		
Dec. 31	To Balance c/d	27,600	Jan. 1	By Balance b/d	18,400
			Dec. 31	By Profit & Loss A/c	9,200
		27,600			27,600
4th Year			4th Year		
Dec. 31	To Machine A/c	40,000	Jan. 1	By Balance b/d	27,600
			Dec. 31	By Profit & Loss A/c	9,200
			Dec. 31	By Depreciation Fund Policy A/c	3,200
		40,000			40,000

DEPRECIATION FUND POLICY ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1st Year			1st Year		
Jan. 1	To Bank A/c	9,200	Dec. 31	By Balance c/d	9,20
2nd Year			2nd Year		
Jan. 1	To Balance b/d	9,200	Dec. 31	By Balance c/d	18,4
Jan. 1	To Bank A/c	9,200			
		18,400			18,4

3rd Year			**3rd Year**		
Jan. 1	To Balance b/d	18,400	Dec. 31	Balance c/d	27,600
Jan. 1	To Bank A/c	9,200			
		27,600			27,600
4th Year			**4th Year**		
Jan. 1	To Balance b/d	27,600	Dec. 31	By Bank A/c	40,000
Jan. 1	To Bank A/c	9,200			
Dec. 31	To Depreciation (*Balancing figure —Profit*)	3,200			
		40,000			40,000

3

(Trial Balance and preparation of Trading and Profit and Loss Account and Balance Sheet of a Sole-Trader—Reserve and Provisions—Sinking and Reserve Funds.)

A

TRIAL BALANCE

Problem 1. What is a Trial Balance ? Discuss the main objects and methods of preparing Trial Balance.

Solution. In the Double entry system of book-keeping, every debit has its corresponding credit and *vice-versa*.

From the *Journal*, the Double aspect of every transaction is given effect to by at once debiting one account and crediting the other account.

From the *Cash Book*, the debit side represents cash receipts and individual transaction are posted to the credit of their respective accounts. The credit side represents cash payments, and each amount paid is debited to the personal or other account concerned. The amounts as entered in the Cash or Bank columns represent themselves the debits and credits to Cash Account or Bank Account. The monthly total of the debit discount column is debited to Discount Account, whereas the various personal accounts concerned get individual credit. Similarly, the monthly total of the discount received column is credited to Discount Account and the personal accounts concerned get individual debit.

From the *Purchases Book*, each individual item is credited to the suppliers account and the periodic totals of the book are posted to the debit of Purchases Account.

From the *Sales Book*, the postings are to the debit of each customer account and Sales Account is credited with the periodic totals of the book.

Thus, for every debit or a series of debits, there must be a corresponding credit or a *series of credits* for an equal amount. Hence, the sums of the debits amount *must be* equal to the sums of credits amount of the ledger (including Cash Book) at any date.

When an account is balanced, equal debits and credits are cancelled against each other. Therefore, if all the accounts of the ledger are balanced, the total of all debit balances must be equal to the total of all credit balances on the same date.

The statement in which debit and credit balances or totals are noted down and finally totalled up, as to ascertain whether they are equal, is called a *Trial Balance*.

Objects of Preparing a Trial Balance

(1) It gives the balance of all the accounts of the ledger. The balance of any account can be found at a glance at the Trial Balance without going through the pages of the ledger.

(2) It is a check on the accuracy of posting. If the trial balance agrees, it proves :

(*a*) that both the aspects of each transaction are recorded, and

(*b*) that the books are arithmetically accurate.

(3) It facilitates the preparation of Profit & Loss Account and the Balance Sheet.

Preparation of Trial Balance

A Trial Balance is usually prepared on loose sheets ruled in a form similar to that of the Journal, *i.e.*, with the debit and credit money columns side by side. Each account is given a line, and the name of the account is written in the particulars column. The first column is used for entering the folio of the ledger on which the account appears. A specimen of Trial Balance ruling is given below:

TRIAL BALANCE OF M/s ....as on...........

L.F.	*Name of Account*	*Debit Balance (or Total)*		*Credit Balance (or Total)*	
		Rs.	P.	Rs.	P.

A Trial Balance could be prepared in two ways:

(1) By putting both the debit side total and credit side total of each account.

(2) By putting the net balance of the individual accounts, *i.e.*, either the debit or the credit as the case may be.

The second method is more commonly used in practice, as it makes, the calculations easy and facilitates the preparation of final statements of accounts.

An important point to be borne in mind in the preparation of the Trial Balance is to include the Cash balance and the Bank balance as indicated by the Cash and Bank columns of the Cash Book. The reason is, that these columns represent Cash and Bank Accounts, and it is only for convenience that Cash and Bank transactions are recorded in a separate book instead of being entered in the ledger accounts.

Problem 2. On 1st March 1974, the books of accounts of Mr. A disclosed the following position:

Cash on hand Rs. 130; Bank overdraft Rs. 100; Debtor—G. Basu Rs. 350; Stock in hand Rs 3,860; Premises and fittings Rs 15,000; Sundry creditors—J Ram Rs 960; W. John. Rs 1,060.

Prepare the opening Balance Sheet, Journalise the following transactions and prepare a Trial Balance as on 31st March 1974 from the following particulars:

1974

Mar. 3 Sold on credit goods to G. Basu in 10 bags for Rs. 16 per bag. The bags were non-returnable and as suc Rs. 2 per bag was extra charged.

Mar. 6 W. John was paid his dues by cheque, allowed Rs. 1 discount.

Mar. 10 Paid wages in cash Rs. 50.

Mar. 14 Bought on credit from J. Ram goods for Rs. 2,550 J. Ra allowed trade discount at 5%.

Mar. 17 J. Ram drew a bill for Rs. 2,000 and discounted the sam after acceptance.

Mar. 21 Cash sales to date amounted to Rs. 155. Paid the amou into Bank with the exception of Rs. 30 which was retaine for office use.

Mar. 24 G. Basu returned goods as damaged. Agreed to allo him credit of Rs. 30 for the same.

Mar. 26 Mr. A brought in Rs. 1,000 as additional Capital and pa the same into Bank.

Mar. 27 Received from a sub-tenant Rs. 50 for premises sub-let.

Mar. 29 G. Basu paid Rs. 300 on account. Paid the same in Bank.

Mar. 31 Paid in cash electric light bill Rs. 12.

(*I.I.B. Part I, November 197*

Solution :

BALANCE SHEET OF Mr. A

as on 1st March, 1974

Liabilities		*Amount*	*Assets*	*Amoun*
		Rs.		Rs.
Bank overdraft		100	Cash on hand	13
Sundry creditors:	Rs.		Debtors:	
J. Ram	960		G. Basu	35
W. John	1,060	2,020	Stock on hand	3,86
			Premises and fittings	15,00
A's Capital A/c (*Balancing figure*)		17,220		
		19,340		19,34

OPENING JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1974				Rs. P.	Rs. P.
Mar. 1	Cash on hand	Dr.		130·00	
	G. Basu	Dr.		350·00	
	Stock on hand	Dr.		3,860·00	
	Premises and fittings	Dr.		15,000·00	
	To Bank overdraft				100·00
	To J. Ram				960·00
	To W. John				1,060·00
	To A's Capital A/c				17,220·00
	(Being the opening Assets and Liabilities brought over from the previous period)				

JOURNAL ENTRIES

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1974				Rs. P.	Rs. P.
Mar. 3	G. Basu	Dr.		1,620·00	
	To Sales A/c				1,600·00
	To Packing material sold A/c				20·00
	(Being the sale of 10 bags @ Rs. 160 each and extra charges for empty bags @ Rs. 2 each)				
Mar. 6	W. John	Dr.		1,060·00	
	To Bank A/c				1,050·00
	To Discount A/c				10·00
	(Being W. John's dues paid in full settlement of his account)				
Mar. 10	Wages A/c	Dr.		50·00	
	To Cash A/c				50·00
	(Being wages paid)				
Mar. 14	Purchases A/c	Dr.		2,422·50	
	To J. Ram				2,422·50
	(Being goods purchased of the worth of Rs. 2,550 at a trade discount of 5%, *i.e.*, Rs. 2,550·00—Rs. 127·50)				

Date	Particulars		Rs. P.	Rs. P.
1974				
Mar. 17	J. Ram	Dr.	2,000·00	
	To Bills Payable A/c			2,000·00
	(Being the bill drawn by J. Ram accepted by us)			
	Hint: For the discounting of the bill by J. Ram, entries will be passed only in his books			
Mar. 21	Bank A/c	Dr.	125·00	
	Cash A/c	Dr.	30·00	
	To Sales A/c			155·00
	(Being cash sales amounted to Rs. 155 made, out of which Rs. 125 deposited into the Bank)			
Mar. 24	Return Inwards A/c	Dr.	30·00	
	To G. Basu			30·00
	(Being goods returned by G. Basu as damaged)			
Mar. 26	Bank A/c	Dr.	1,000·00	
	To A's Capital A/c			1,000·00
	(Being further capital brought in by A and the same was deposited into the Bank)			
Mar. 27	Cash A/c	Dr.	50·00	
	To Rent A/c			50·00
	(Being rent received from the sub-tenant for premises sub-let)			
Mar. 29	Bank A/c	Dr.	300·00	
	To G. Basu			300·00
	(Being amount received on account from G. Basu paid into the bank)			
Mar. 31	Electricity charges A/c	Dr.	12·00	
	To Cash A/c			12·00
	(Being the payment made for electric light bill)			

Ledger Accounts in the Books of A :

Dr. CASH ON HAND ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
1	To Balance b/d	130	10	By Wages A/c	50
21	To Sales A/c	30	31	By Electricity charges A/c	12
27	To Rent A/c	50	31	By Balance c/d	148
		210			210
1974					
April					
1	To Balance b/d	148			

Dr. CASH AT BANK ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
21	To Sales A/c	125	1	By Balance b/d	100
26	To A's Capital A/c	1,000	6	By W. John	1,050
29	To G. Basu	300	31	By Balance c/d	275
		1,425			1,425
1974					
April					
1	To Balance b/d	275			

Dr. G. BASU Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
1	To Balance b/d	350	24	By Return Inwards A/c	30
3	To Sales A/c	1,600	29	By Bank A/c	300
	To Packing material sold A/c	20	31	By Balance c/d	1,640
		1,970			1,970
1974					
April					
1	To Balance b/d	1,640			

J. RAM

Cr.

te	Particulars	Amount	Date	Particulars	Amount
		Rs. P.			Rs. P.
74 arch 7	To Bills Payable A/c	2,000·00	1974 March 1	By Balance b/d	960·00
1	To Balance c/d	1,382·50	14	By Purchases A/c	2,422·50
		3,382·50			3,382·50
			1974 April 1	By Balance b/d	1,382·50

W. JOHN

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1974 March 6	To Bank A/c	1,050	1974 March 1	By Balance b/d	1,060
	To Discount A/c	10			
		1,060			1,060

A'S CAPITAL ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1974 March 31	To Balance c/d	18,220	1974 March 1	By Balance b/d	17,220
			26	By Bank A/c	1,000
		18,220			18,220
			1974 April 1	By Balance b/d	18,220

Dr. **SALES ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
31	To Trading A/c	1,755	3	By G. Basu	1,600
			21	By Bank A/c	125
				By Cash A/c	30
		1,755			1,755

Dr. **PURCHASES ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs. P.	1974		Rs. P.
March			March		
14	To J. Ram	2,422·50	31	By Trading A/c	2,422·50
		2,422·50			2,422·50

Dr. **STOCK ON HAND ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
1	To Balance b/d	3,860	31	By Balance c/d	3,860
		3,860			3,860
1974					
April					
1	To Balance b/d	3,860			

Dr. **PREMISES AND FITTINGS ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
1	To Balance b/d	15,000	31	By Balance c/d	15,000
		15,000			15,000
1974					
April					
1	To Balance b/d	15,000			

PACKING MATERIAL SOLD ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1974 March 31	To Profit & Loss A/c	20	1974 March 3	By G. Basu	20
		20			20

DISCOUNT ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1974 March 31	To Profit & Loss A/c	10	1974 March 6	By W. John	10
		10			10

WAGES ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1974 March 10	To Cash A/c	50	1974 March 31	By Trading A/c	50
		50			50

BILLS PAYABLE ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1974 March 31	To Balance c/d	2,000	1974 March 17	By J. Ram	2,[illegible]
		2,000			2,[illegible]
			1974 April 1	By Balance b/d	[illegible]

Dr. **RETURN INWARDS ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
24	To G. Basu	30	31	By Trading A/c	30
		30			30

Dr. **RENT ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
31	To Profit & Loss A/c	50	27	By Cash A/c	50
		50			50

Dr. **ELECTRICITY CHARGES ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
March			March		
31	To Cash A/c	12	31	By Profit & Loss A/c	12
		12			12

TRIAL BALANCE OF A
as on 31st March, 1974

Name of the account	Debit Balance	Credit Balance
	Rs. P.	Rs. P.
Cash on Hand	148 00	
Cash at Bank	275 00	
G. Basu	1,640 00	
J. Ram		1,382·50
A's Capital A/c		18,220·00
Sales A/c		1,755 00
Purchases A/c	2,472 50	
Stock on Hand A/c	3,860 00	
Premises and Fittings A/c	[illegible]	
Total of	23,345 50	[illegible]

TRIAL BALANCE

	Rs. p.	Rs. p.
Total b/f	23,345·50	21,357·50
…king material sold A/c		20·00
…scount A/c		10·00
…ages A/c	50·00	
…lls Payable A/c		2,000·00
…eturn Inwards A/c	30·00	
…ent A/c		50·00
…lectricity charges A/c	12·00	
	23,437·50	23,437·50

Problem 3. From the following Trial Balance (containing obvious errors) prepare a correct Trial Balance :

	Dr. Rs.	Cr. Rs.
Purchases	60,000	
Reserve Fund	20,000	
Sales		1,00,000
Purchase returns	1,000	
Sales returns		2,000
Opening Stock	30,000	
Closing Stock		40,000
Expenses		20,000
Outstanding expenses	2,000	
Bank balances	5,000	
Assets	50,000	
Debtors		80,000
Creditors		30,000
Capital	94,000	
Suspense A/c (being difference in books)	10,000	
	2,72,000	2,72,00[illegible]

(I.I.B. Part I, November 197

Solution:

REVISED TRIAL BALANCE
of ....
as on ....

Name of the account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Purchases	60,000	
Reserve Fund		20,000
Sales		1,00,000
Purchases returns		1,000
Sales returns	2,000	
Opening stock	30,000	
Expenses	20,000	
Outstanding expenses		2,000
Bank Balances	5,000	
Assets	50,000	
Debtors	80,000	
Creditors		30,000
Capital		94,000
	2,47,000	2,47,000

Value of the Closing Stock at the end of the year was Rs. 40,000.

Problem 4. From the following Trial Balance containing obvious errors, prepare correct Trial Balance :

	Dr.	*Cr.*
	Rs.	Rs.
Cost of goods sold	1,50,000	
Closing Stock		40,000
Debtors		60,000
Creditors		30,000
Fixed Assets	50,000	
Opening Stock	60,000	
Expenses		20,000
Sales		2,00,000
Capital	90,000	
	3,50,000	3,50,000

(*I.I.B. Part I, October 1950*)

3·13

Soltition :

TRIAL BALANCE

of——as on————

Name of the account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Opening Stock	60,000	
*Purchases	1,30,000	
Sales		2,00,000
Capital		90,000
Expenses	20,000	
Fixed Assets	50,000	
Creditors		30,000
Debtors	60,000	
	3,20,00	3,20,000

Working Notes :

*1. Cost of goods sold=Stock of goods in hand in the beginning
+Net Purchases made during the yea
+Direct expenses paid for the purchase
—Stock of goods in hand at the close c
the year.

In the given problem:

Cost of Goods sold=Rs. 1,50,000 ; Opening Stock=Rs. 60,000 a
Closing Stock=Rs. 40,000.

But, the amount of Purchases is not given. Therefore, to calcul the missing figure, the abovesaid formula of cost of goods sold wil applied as under:

Rs. 1,50,000 (Cost of Goods Sold) =Rs. 60,000 (Opening Stock)
+Purchases—Rs. 40,000 (Closing S

or Purchases=Rs. 1,50,000—Rs. 60,000+Rs. 40,000=Rs. 1,30,000

2. In case the closing stock is shown as a debit balance i trial balance, it will be taken as an asset in the Balance Sheet. But i closing stock will be treated as an adjustment.

3. Debtors and Expenses always have debit balance and the credit balance.

B

FINAL ACCOUNTS

Problem 1. Why are the Final Accounts prepared ? Explain the procedure for the preparation of final statements of accounts.

Solution. One of the main objects of maintaining accounts is to find out the profit or loss made by the business at the end of periodic intervals and to ascertain the financial position of the business as on a given date.

The above-noted objects can be achieved by preparing final statements of accounts at the end of each accounting period, which consist of :

1. Profit and Loss Account, and
2. Balance Sheet.

The Profit and Loss Account is generally divided into two parts :

(a) Trading Account, and

(b) Profit and Loss Account.

Once the Trial Balance is extracted and errors rectified, Trading and Profit and Loss Account is prepared by transferring from the Trial Balance, all [illegible] 'Closing Entri[illegible] are shown in [illegible]

Preparation of Trading Account

The Trading Accoun[illegible] excess of the cost of goods sold over the net sales.

On the debit side of the Trading Account will be found the following items :

1 Stock of Raw Materials, Work-in-progress and Finished Goods at the commencement of the trading period (Opening Stock).

2. Cash and Credit purchases of goods which are for resale purposes less the value of such purchases which have been returned (Cash Purchases + Credit Purchases—Returns outwards, *i.e.*, Net purchases)

3. Direct expenses on the purchase of goods, *i.e.*, all expenses which have been incurred before the goods become ready for sale such as Wages, Carriage inward, Manufacturing expenses, Coal, Water and Gas, Factory lighting, Freight, Octroi, Factory rent and rates, Excise duty, Custom duty on Imports, Factory insurance, Depreciation on Factory Machinery, Factory Manager's salary, Consumable stores, etc.

On the credit side of the Trading Account will be found :

1. Cash and Credit sales of goods which were purchased for resale purpose, *less* the value of the goods returned by the customers (Cash Sales + Credit Sales—Returns Inwards, *i.e.*, Net Sales).

2. Stock of Raw Materials, Work-in-progress and Finished Goods on hand at the end of the trading period.

In order to ascertain the value of Closing Stock, a list of all goods in stock after physical checking is prepared (this is known as Stock-Taking). This stock in hand is valued at cost or realisable value whichever is less. It is valued on conservative basis, *i.e.*, expected profits are ignored but possible losses are duly provided for. The value of Closing Stock is brought into account by means of an adjusting entry Stock (Closing) A/c is debited because the unsold goods represent an Asset. The Trading A/c is credited to arrive at the profit made on buying and selling of goods. The credit balance of the Trading Account represents the Gross Profit on trading for the period and is transferred to the credit of Profit and Loss Account. If there is a debit balance in the Trading Account, it represents Gross Loss and is debited to the Profit and Loss Account.

Preparation of Profit and Loss Account

This account is prepared to find net profit or loss resulting from the transactions during a trading period.

The Gross Profit shown by the Trading Account is first shown on the credit side of the Profit and Loss Account, but if there is Gross Loss, that would be shown on the debit side. This account is credited with the items of miscellaneous incomes such as Rent, Commission, Discount, Interest, Dividend, etc., which are having credit balances in the Trial Balance. This account is debited with revenue expenditures, *i e.*, with all debit balances of the Nominal accounts from the Trial Balance (after adjustments), *e.g.*, Rent, Salaries, Printing and Stationery consumed, Advertisement, Commission, Carriage outward, Packing charges, Insurance, Lighting, Postage and Telegrams, Telephone charges, Audit fee, Repairs, Maintenance, Discount allowed, Depreciation, Outstanding expenses, Bad debts, Interest on capital, etc.

The difference between the two sides of the Profit and Loss Account is either Net Profit or Net Loss of the business for the trading period. If the credit total is more, the difference would be Net Profit, if the debit total is more, it would be Net Loss.

The Net Profit or Net Loss is transferred to the credit or debit of the Proprietor's/Partner's Capital Account/s, as it is the owner who is entitled to profits or responsible to bear losses. Net Profit will increase his capital and Net Loss would reduce it.

Preparation of Balance Sheet

Balance Sheet is a statement prepared at regular intervals showing what a business owns and what it owes. It is a 'SHEET' of all the ledger 'BALANCES' of Personal and Real accounts as on a particular day.

Balance Sheet is prepared with a view to measure the exact financial position as at the close of business on the last working day of trading period, which is indicated by the Assets and Liabilities of the business on that date. The excess of Assets over Liabilities represent the Capital. Assets are the debit balances and Liabilities are the credit balances.

A Balance Sheet has two sides—the left hand side is 'Liabilities' sid and the right-hand side is the 'Assets' side, as shown hereunder :

(Name of the business)

BALANCE SHEET

as on......................

(Date, Month & Year)

Capital & Liabilities	*Amount*	*Property & Assets*	*Amour*
Personal accounts showing credit balances	Rs.	Real and Personal accounts showing debit balances	Rs.
	......		......

(*Total of both the sides will tally*)

Problem 2. Explain the need and the points to be kept in min while preparing manufacturing account.

Manufacturing Account is prepared to reveal the cost of good manufactured in a particular period. Following points should be note while making this account.

1. **Cost of Materials used.** The opening stock of material purchases and carriage inward be added and the value of closing stoc of materials be deducted. Opening and closing stocks of finished goods b ignored while preparing the Manufacturing account as they will appea in the Trading Account.

2. **Factory Expenses.** All expenses incurred in the factory t produce the goods be debited to this account, e.g., wages paid t labourers, salaries to factory staff, factory rent and lighting, depreciatio on machinery, repairs of machinery, power and fuel, etc.

3. **Work in Progress.** It is valued at materials used, labou spent plus a reasonble share of other expenses. Work in progress the beginning should be added to and the work in progress at the end l deducted from the debit side of the Manufacturing Account.

4. **Sale of scrap material.** The proceeds from the sale of wasta and scrap material should be credited to the Manufacturing Account.

5. **Cost of goods manufactured.** The balance in the Man facturing Account represents the cost of goods manufactured and transferred to the debit side of the Trading Account.

Problems 3. Explain the aim for the preparation of Profit and Loss appropriation account in case of sole proprietorship or partnership accounts.

Solution. The aim of the Profit and Loss Appropriation Account is to show all dispositions, divisions and appropriations of the net profit. Thus, whereas all expenses incurred in arriving at the figure of net profit, such as interest on loan, depreciation, rent, sales, salaries, etc., are chargeable to Profit and Loss account, the appropriation account will be debited with such items as Manager's Commission (when intended to be a division of profits), interest on capital of a partner, transfers to reserves, salaries to partners, amounts written off, etc. Similary withdrawals from reserves or provisions no longer required should be credited to the Appropriation Account.

Problem 4. State points of difference between a Trial Balance, Balance Sheet and a Statement of Affairs. *(I.I.B. Part I, May 1969)*

Solution:

Trial Balance

To check the accuracy of the postings, a Trial Balance is prepared, which is ruled in a form similar to that of the Journal, *i.e.*, with the debit and credit money columns side by side. In it the balances of all the accounts are written—debit balances on the debit side and credit balances on its credit side. The items in a Trial Balance relate to all types of accounts, whether they are Nominal, or Real or Personal Accounts. It is completed before preparing a Trading and Profit & Loss account. It can be prepared at any stage, without even making adjustments. Normally the Closing Stock does not figure in the Trial Balance.

Balance Sheet

It shows readily the financial position of business at a given date by disclosing the amount of capital contributed and how the same has been invested: the values of Assets and Liabilities and their nature. It is ruled like a 'T' type ledger account. The Capital and Liabilities of the business are shown on the left-hand side and the Assets and Properties are shown on the right-hand side. It contains the balances of only Real and Personal accounts. It is prepared after all the income and expenditure accounts (Nominal accounts) have been closed off by transfer to Trading and Profit & Loss account. The value of Closing Stock appears as an Asset in it. A Balance Sheet cannot be prepared without making adjustments for outstanding and prepaid items and without taking into account all events and transactions for the period.

Statement of Affairs

The trader who has maintained his books on Single Entry, he can ascertain his financial position in an approximate manner [illegible] Statement of Affairs. The profit [illegible] a period is [illegible] by preparing one Statement of Affairs at the beginning of the period and the other at its close. The increase in the amount of Capital as at the close of the period, compared to the opening Capital, after adjusting therein any Drawings or fresh Contributions, will be the amount of Profit or Loss for the period. The information secured from the preparation of a Statement of Affairs is by no means as reliable and as complete

as that given by a Balance Sheet, because it is prepared partly from the ledger and partly from other sources. Information about cash balance is obtained from Cash Book, the details of the Sundry Debtors and Creditors is obtained from their personal accounts maintained in the ledger. The value of Closing Stock and other assets like Buildings, Machinery, Furniture, etc., is taken on the Assets side by ascertaining their value from the rough records or memory of the proprietor. The difference between the total of Assets and Liabilities will be Capital. ... pared from Single Entry ... To ascertain the net ... nent of Profit & Loss is prepared on the following lines :

STATEMENT SHOWING PROFIT OR LOSS

for the..... (*Period*) ended......(*dated*)

Particulars	*Amount*	
	Rs.	Rs
Capital (at the end)		...
Add : Drawings during the period		...
Less : Fresh Capital introduced	...	...
Less : Capital in the beginning	...	...
Net Profit (or Loss)		...

Problem 5. How will you treat the closing stock under the following circumstances :

(1) Stock on hand,
(2) Stock on consignment (inward),
(3) Stock on consignment (outward),
(4) Stock of goods on sale or return.

(*I.I.B. Part I, November 1970*)

Solution:

(1) Stock on Hand:

Usually there is no account to show the value of goods in hand at the end of the trading period. It is incorporated in the books of accounts by passing an adjustment entry :

Particulars		*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
Stock A/c	Dr			
To Trading A/c				
(Being the value of Closing Stock recorded as on ... .)				

For the above purpose, at the end of the financial period a list of all goods in stock after physical checking is prepared, value is attached to each item at cost price or at market price, whichever is less, and the total value is recorded. Stock includes only of those goods which are normally bought and sold by that business concern.

The stock of goods on hand at the opening and closing of each trading period is taken into Trading Account for the purpose of arriving at the profit made on the buying and selling of goods. The debit to the Stock account represents an Asset and is shown in the Balance Sheet.

Generally the Closing Stock is given outside the Trial Balance, but when purchases are adjusted through opening and closing stocks, in that case Closing Stock will have a debit balance in the Trial Balance.

(2) Stock on Consignment (Inward) :

When a person sends goods to another person on the condition that the receiver will try to sell the goods in the best possible manner and will remit the sale proceeds less expenses and his own remuneration, it is a transaction of Consignment. To the Principals, the goods thus sent out would be known as 'Outward Consignments' whereas to the Agents, they would be known as 'Inward Consignments.' Thepe rsons sending out the goods are called Consignors and those receiving the goods are called Consignees.

Unlike sales, the goods consigned to the Consignee remain the property of the Consignor so far as these are not sold by the Consignee. Consignee, being an agent for the Consignor, should not mix up his own stock of goods with the unsold balance of goods received on Consignment.

The Consignee does not record the stock on consignment in his books. He simply maintains a Memorandum Record of such consignment stock with him, because such goods do not belong to him, but are held by him merely as an agent for the Consignor.

(3) Stock on Consignment (Outward) :

It is possible that all goods sent on consignment might not have been sold by the Consignee up to the date when the final accounts of the Consignor are prepared. While closing the Consignment Account, value of closing stock lying with the Consignee must be taken into account.

For the valuation of consignment stock a proportionate amount of the non-recurring expenses incurred up to the time the goods are brought to the place of the consignee, whether paid by the consignor or consignee, must be added to the cost price of the stock. The commission and other expenses (e.g., warehousing expenses, selling expenses, etc.) should not be apportioned to the unsold stock. The cost thus ascertained is the value of consignment stock if it is less than the market price of such unsold stock.

The Stock on consignment is recorded in the books of the consignor by passing the following Journal entry :

Particulars	L.F.	Debit Amount	Credit Amount
ment Stock A/c Dr.			
n Consignment A/c			
Being the value of unsold stock on consignment)			

tock of Goods on Sale or Return :

When goods are sent out on sale, on approval or return basis, it mes sale only when the customer signifies his intention to purchase oods or takes some action whereby it is indicated that he has decided urchase the goods.

To record such transactions, customers accounts are opened in a arate ledger, known as 'Goods on Approval Ledger'. When goods are t out for sale on approval, the sale price is debited to the 'Customers ccounts' in this ledger and the 'Goods on Approval Total Account' in e same ledger is credited. If goods are returned, the individual amounts re credited to the 'Customers Accounts' in this ledger, and the 'Goods on pproval Total Account, in the ledger is debited. If the goods are retained y the customers the individual amounts are posted to the debit of Customers Accounts' in the general Ledger and the Sales Account in the general ledger is credited. Further the 'Customers accounts' in the 'Goods on Approval Ledger' are credited with the individual amounts of goods sold and the total of the amounts is posted to the debit of 'Goods on Approval Total Account'.

The value of the goods sent out but not sold or returnd till the date of closing the accounts is shown by the credit balance in the 'Goods on Approval Total Account' This amount, after eliminating the element of profit, is included in the Trading Account, which represents the value of stockwith customers at cost price

Problem 6. Explain briefly from a Bank's view points .
(1) Loan (2) Overdraft (3) Cash Credit.
(I I B Part I November 1973)

Solution Bank advances may be granted in various forms, such as loans, overdrafts, cash credits, etc

(1) Loans In a loan account the entire amount is paid to the borrower at one time either in cash or by transfer to his current account. No subsequent debit is allowed except by way of interest and expenses. Interest is charged at periodic interval unless otherwise agreed. The amount is generally repayable wholly at one time In the case of term loans where the advances are made to industries on the security of their fixed assets, the loans are generally repayable by instalments over a number of years ranging from 3 to 7 years

(2) Overdraft It is fluctuating account, the balance sometimes being in credit and at other times in debit. Overdraft facilities are allowed in current accounts only Under overdraft arrangement a customer is allowed to withdraw in excess of the credit bal

in his current account. A limit is generally specified, which enables a customer to draw over and above his own balance up to that limit and he can save interest by reducing the debit balance, whenever he is in a position to do so.

The facility is granted for a short period, after the expiry of which the customer is expected to repay the advance.

Interest is charged on the daily debit balances outstanding in the account.

Overdraft is allowed either on a clean basis or a collateral security may be lodged.

(3) **Cash Credit.** It is an arrangement under which a customer is allowed an advance upto a certain limit against a security. It is essentially a drawing account against credit granted and is operated in the same way as an overdraft account. The borrower can provide alternative securities from time to time in confirmity with the terms of advance and according to his own requirements. He is given the right to make withdrawals according to the drawing power, calculated by the Bank after considering the margin requirements and the specified sanctioned limit.

If there is a good turn-over in the account and there are no adverse factors, a cash credit limit is allowed to continue for years together.

Borrower is allowed to withdraw the amount from this account according to his requirements. Interest is charged on daily balances (debit) at the stipulated rate.

Problem 7. Mr. A carried on business under the name of A & Co. From the following information prepare the final accounts for the year ended 31st December 1967 :

TRIAL BALANCE

Name of Account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Mr. A's Capital account		1,19,400
Mr. A's Drawings account	10,550	
Bills Receivable	9,500	
Plant & Machinery	28,800	
Sundry Debtors (including B for dishonoured bills Rs. 1,000)	62,000	
Loan Account at 6% (interest paid upto October 1967)		20,000
Wages	40,970	
Return Inwards	2,780	
Purchases	2,56,590	
Sales		3,56,530
Commission received		5,640
Totals c/fd	4,11,190	5,01,570

Total b/fd	4,11,190	5,01,570
Rent and Taxes	5,620	
Stock	89,680	
Salaries	11,000	
Travelling Expenses	1,880	
Insurance (including premium of Rs. 300 p.a. paid up to 30th June, 1968)	400	
Cash	530	
Bank	18,970	
Repairs and Renewals	3,370	
Interest and Discounts	5,870	
Bad Debts	3,620	
Sundry Creditor		59,530
Furniture and Fixtures	8,970	
	5,61,100	5,61,100

Stock on hand on 31st December, 1967 was Rs. 1,28,960 ; Write off half of B's dishonoured bill. Create a reserve for doubtful debts at 5% ; Allow 5% interest on capital : Wages include Rs. 1,200 for erection of machinery purchased last year.

Depreciate plant and machinery by 10%. Furniture is revalued at the end of the year at Rs. 8,073. Provide for commission not received Rs. 600.

(I I.B. Part I, October 1968)

Solution:

TRADING AND PROFIT & LOSS ACCOUNT OF A & Co.

Dr. for the year ending 31st December, 1967 *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Stock		89,680	By Sales	3,56,530	
To Purchases		2,56,590	*Less* :		
To Wages	40,970		Returns Inwards	2,780	3,53,750
Less : Erection charges of machinery wrongly included	1,200	39,770	By Stock (Closing)		1,28,960
To Gross Profit (*Balancing figure*)		96,670			
		4,82,710			4,82,710

BALANCE SHEET OF A & CO.

as on 31st December, 1967

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
A's Capital A/c	1,19,400		Plant & Machinery	28,800	
Add : Interest @ 5%	5,970		*Add* : Erection charges wrongly charged in wages	1,200	
Add : Net Profit	57,658				
	1,83,028			30,000	
Less : Drawings	10,550	1,72,478	*Less* : Depreciation @ 10%	3,000	27,000
6% Loan A/c	20,000				
Add : Interest outstanding	200	20,200	Sundry Debtors	62,000	
			Less : Bad Debts written off	500	
Sundry Creditors		59,530		61,500	
			Less : Reserve for doubtful Debts @ 5%	3,075	58,425
			Insurance prepaid		150
			Cash in hand		530
			Cash at Bank		18,970
			Furniture & Fixtures	8,970	
			Less : Depreciation @ 10%	897	8,073
			Stock in hand		1,28,960
			Commission receivable		600
			Bills Receivable		9,500
		2,52,203			2,52,203

Problem 8. The following is the Trial Balance of Mr. Adamji as 31st December, 1972 :

TRIAL BALANCE

Name of Account	Debit Balance	Credit Balance
	Rs.	Rs.
Cash on hand	540	
Cash at Bank	2,630	
Purchases	40,675	
Sales		98,780
Return Inwards	680	
Return Outwards		500
Wages	10,480	
Fuel and Power	4,730	
Carriage outwards	3,200	
Carriage inwards	2,040	
Opening Stock	5,760	
Premises	30,000	
Lands	10,000	
Machinery	20,000	
Patents	7,500	
Salaries	15,000	
Sundry Expenses	3,000	
Insurance	600	
Drawings	5,245	
Adamji's Capital		71,000
Debtors and Creditors	14,500	6,300
	1,76,580	1,76,580

Taking into consideration the following adjustments, prepare Trading and Profit and Loss Account and a Balance Sheet as on 31st December 1972 :

(1) Closing Stock as on 31st December 1972, Rs. 6,800.

(2) Depreciate machinery and patents by 10 per cent and 20 percent respectively.

(3) Salaries due for the month of December, Rs. 1,500.

(4) The Insurance Policy expires on 30th June, 1973.

(5) Rs. 2,000 spent on erection of a shade were included in wage account.

(6) Reserve 5 per cent for Doubtful Debts.

(I.I.B. Part 1, May 197

Solution:

TRADING AND PROFIT & LOSS ACCOUNT OF ADAMJI

Dr. as on 31st December, 1972 *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Opening Stock		5,760	By Sales	98,780	
To Purchases	40,675		*Less* : Return inwards	680	98,100
Less : Return outwards	500	40,175	By Closing Stock		6,800
To Wages	10,480				
Less : Amount paid for erection of shade transferred to Buildings Account	2,000	8,480			
To Fuel and Power		4,730			
To Carriage Inward		2,040			
To Gross Profit		43,715			
		1,04,900			1,04,900
To Carriage outward		3,200	By Gross Profit		43,715
To Salaries	15,000				
Add : Outstanding for December 1972	1,500	16,500			
To Sundry expenses		3,000			
To Insurance	600				
Less : Prepaid up to 30-6-73	300	300			
To Depreciation :					
Machinery @ 10% on Rs 20,000	2,000				
Patents @ 20% on Rs. 7,500	1,500	3,500			
To Reserve for doubtful debts (@ 5% on Rs 14,500)		725			
To Net Profit		16,490			
		43,715			43,715

BALANCE SHEET OF ADAMJI
as on 31st December, 1972

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
			Cash on hand		540
			Cash at Bank		2,630
Adamji's Capital	71,000		Stock in hand		6,800
Less: Drawings	5,245		Premises	30,000	
	65,755		*Add*: Wages paid for erection of shade	2,000	32,000
Add: Net Profit	16,490	82,245			
Creditors		6,300	Land		10,000
Salaries outstanding for December, 1972		1,500	Machinery	20,000	
			Less: Depreciation at 10%	2,000	18,000
			Patents	7,500	
			Less: Depreciation at 20%	1,500	6,000
			Insurance prepaid up to 30.6.73		300
			Debtors	14,500	
			Less: Reserve for Doubtful debts @ 5%	725	13,775
		90,045			90,045

Problem 9. From the following Trial Balance and the other particulars given, prepare Trading and Profit & Loss Account for the year ended 31st December 1974 and a Balance Sheet as on that date :

TRIAL BALANCE

Name of Account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Mr. A Traders' Capital A/c		10,00,000
Personal debts	1,000	
Balance at Bank	1,76,000	
Motor Vehicles cost *less* Depreciation	1,48,000	
Debtors and Creditors	2,96,000	2,32,000
Printing and stationery	6,600	
Purchases and Sales	24,00,000	31,60,000
Opening Stock	2,40,000	
Reserve for doubtful debts	·	5,000
Bad debts	11,400	
Freehold Premises at Cost	8,00,000	
Repairs to Premises	47,600	
General Reserve		2,00,000
Proprietor's remuneration	20,000	
Wages and Salaries	2,29,000	
Motor and delivery Expenses	99,000	
Administration expenses	1,31,400	
Rates and taxes	15,000	
Drawings	1,00,000	
Last year's Profit and Loss a/c balance		1,24,000
	47,21,000	47,21,000

(1) Stock on hand as on 31st December 1974 Rs. 2,80,000; (2) Depreciate motor vehicles by Rs 74,000. (3) Sundry creditors include a claim for damages of Rs. 20,000 made last year. This was settled during this year for Rs 15,100. (4) Unpaid wages Rs. 1,600. (5) Rates paid in advance Rs 3,600. (6) Provision for bad debts is to be reduced to Rs. 3,500. (7) The item of Repairs to Premises includes Rs. 20,000 for capital structure; (8) Stock of stationery on hand Rs 2,200.

(*L*

ation.

TRADING AND PROFIT & LOSS ACCOUNT OF A

for the year ended 31st December, 1974

r. Cr.

articulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Opening Stock		2,40,000	By Sales		31,60,000
To Purchases		24,00,000	By Closing Stock		2,80,000
To Wages and Salaries	2,29,000				
Add : Wages outstanding	1,600	2,30,600			
To Gross Profit		5,69,400			
		34,40,000			34,40,000
To Printing & stationery	6,600		By Gross Profit		5,69,400
Less : Stock in hand	2,200	4,400	By Reserve for Doubtful Debts as on 1.1.1974	5,000	
To Bad Debts		11,400	*Less* : Provision to be maintained as on 31.12.1974	3,500	1,500
To Repairs to Premises	47,600				
Less : Paid for Capital structure transferred to Premises account	20,000	27,600			
To Motor & delivery expenses		99,000	By Excess provision for claims : as on 1.1.1974	20,000	
To Administration expenses		1,31,400	*Less*: Actuals on 31.12.74	15,100	4,900
To Rates & taxes	15,000				
Less : Rates pre-paid	3,000	12,000			
	c/fd	2,85,800	c/fd		5,75,800

	Rs.		Rs.
b/fd	2,85,800	b/fd	5,75800
To Depreciation on Motor Vehicles	74,000		
To Proprietor's remuneration	20,000		
To Net Profit	1,96,000		
	5,75,800		5,75,800

Note. The amount incurred for building Capital structure wrongly included in Repairs (nominal) account will be added in Premises account by passing the following rectifying Journal Entry.

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
	Freehold Premises A/c	Dr.		20,000	
	To Repairs to Premises A/c				20,000

BALANCE SHEET OF A

as on 31st December, 1974

Liabilities	Details	Amount	Assets	Details	Amount
	Rs.	Rs.		Rs.	Rs.
A's Capital A/c	10,00,000		Freehold Premises	8,00,000	
Add : Profit for 1973	1,24,000		*Add* : Amount wrongly included in repairs to premises paid for capital structure	20,000	8,20,000
Add : Net Profit	1,96,000		Sundry Debtors	2,96,000	
	13,20,000		*Less* : Provision for doubtful debts	3,500	2,92,500
Less : Drawings	1,00,000		Motor Vehicles	1,48,000	
	12,20,000		*Less* : Depreciation	74,000	74,000
Less : Personal Debt.	1,000	12,19,000	Balance at Bank		1,76,000
General Reserve		2,00,000	Closing Stock		2,80,000
Sundry Creditor	2,32,000		Rates prepaid		3,000
Less : Excess provision for claims	4,900	2,27,100	Stock of stationery		2,200
Wages outstanding		1,600			
		16,47,700			16,47,700

Problem 19. From the following Trial Balance prepare a Trading and Profit & Loss account for the year ended 31st December, 1969 and a Balance Sheet as on that date :

TRIAL BALANCE

Name of account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Freehold Land	60,000	
Building and Equipment	1,10,000	
Motor Cars and Trucks	10,000	
Repairs to Buildings	2,000	
Stock as on 1st January 1969	40,000	
Purchases	20,000	
Drawings	25,000	
Wages	50,000	
Salaries	5,000	
Cars and Trucks expenses	6,000	
Office rent	1,000	
Rates—Gardens	4,000	
Sundry expenses—Gardens	5,000	
Office expenses	2,000	
Debtors	3,000	
Cash and Bank balances	6,000	
Capital as on 1st January 1969		2,00,000
Sale of Garden Produce		1,50,000
Sale of Truck		1,500
Sundry Creditors		1,700
Repairs and Depreciation Fund		20,000
Investments	29,000	
Interest on Investments		4,800
	3,78,000	3,78,000

The following adjustments are required :

(1) Cars and Trucks Expenses are to be dealt with as to one-third as Carriage inwards and the balance as Carriage outwards.

(2) The book value of the Truck sold was Rs. 900 as on 1st January 1969.

(3) Depreciate Cars and Trucks at 20% p.a.

(4) The Repairs and Depreciation Fund is to be credited with an amount equal to 5% of the cost of Building and Equipment. The actual Repairs to Building are to be debited to this account.

(5) Make provision for Office rent Rs. 300, and Office expenses Rs. 100. Rates paid in advance Rs. 1,000.

(6) It is the practice with the business, to credit proprietor's account with Rs. 6,000 p.a. as salaries.

(7) Closing Stock as on 31 December 1969 Rs. 45,000.

(I.I.B. Part I, November 1970)

Solution:

TRADING AND PROFIT & LOSS ACCOUNT

Dr. for the year ended 31st December, 1969 *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Stock as on 1.1.1969		40,000	By Sales of Garden produce		1,50,000
To Purchases		20,000	By Stock as on 31.12.1969		45,000
To Wages		50,000			
To Rates—Gardens	4,000				
Less : Prepaid	1,000	3,000			
To Carriage inward—(one-third of Cars and Truck expenses)		2,000			
To Gross Profit		80,000			
		1,95,000			1,95,000
To Salaries	5,000		By Gross Profit		80,000
Add : Salaries credited to proprietor's A/c	6,000	11,000	By Profit on sale of truck :		
			Sale proceeds	1,500	
			Less : Book-value of Truck	900	600
To Carriage outward (two-thirds of Cars and Trucks expenses)		4,000	By Interest on Investments		4,800
To Office rent	1,000				
Add : Provision for office rent	300	1,300			
To Sundry expenses —Garden		5,000			
	c/fd	21,300		c/fd	85,400

	Rs.	Rs.		Rs.
B/fd		2,59,180	B/fd	2,61,280
…isions for				
…penses :				
…fice rent	300			
…ffice expenses	100	400		
…ndry Creditors		1,700		
		2,61,280		2,61,280

Problem 11. Mr. A commenced bussiness on 1st January 1971 introducing the following as initial Capital :

	Rs.
Bank Balance	8,000
Land	20,000
Buildings	11,200
Furniture	800
Motor Van	2,400

In addition to the above the following balances have been extracted from his books of accounts :

	Rs.
Motor expenses	6,400
Sundry Debtors	7,888
Sales	3,88,000
Purchases	3,54,560
Salaries	8,304
Discount received	6,416
Rates	1,104
Addition to Buildings (as on 1st January 1971)	6,720
Repairs to Buildings	944
Rent Received	1,792
Lights and fans	1,472
Telephones	816
Insurance	672
Balance at Bank	16,000
Cash on hand	256
Sundry Creditors	20,000
Additions to Motor Van (as on 1st April 1971)	4,160
Sundry expenses	2,912
Drawings	11,200
Income tax advance	800

Prepare Trading and Profit & Loss account and Balance Sheet as at 31st December 1971 after taking into consideration the followings :

(a) Stock as on 31st December Rs. 54,000.

(b) Depreciate :

Building	5% p.a.
Furniture	6% p.a.
Motor Vans	20% p.a.

(c)

Income Tax payable	Rs. 5,200
Accountancy charges payable	400
Light and fans amount due	320
Telephone amount due	80

(d) Amounts paid in advance for:

Insurance	240
Rates	160
Motor expenses	480

(e) Income tax account be written off.

(*I.I.B. Part I, May 1972*)

Solution:

OPENING JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1971				Rs.	Rs.
Jan. 1	Cash at Bank A/c	Dr.		8,000	
	Land A/c	Dr.		20,000	
	Buildings A/c	Dr.		11,200	
	Furniture A/c	Dr.		800	
	Motor Van A/c	Dr.		2,400	
	To A's Capital A/c				42,400
	(Being A commenced business by introducing the above noted assets in the business)				

TRADING AND PROFIT & LOSS ACCOUNT OF MR. A
for the year ended 31st December, 1971

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
Purchases	3,54,560	By Sales	3,88,000
Gross Profit	87,440	By Stock as on 31st December	54,000
	4,42,000		4,42,000

Particulars		Rs.	Particulars	Rs.
Motor expenses	6,400		By Gross Profit	87,440
...ss : Prepaid	480	5,920	By Discount received	6,416
...o Salaries		8,304	By Rent received	1,792
...o Rates	1,104			
Less : Prepaid	160	944		
To Repairs to Building		944		
To Light and Fans	1,472			
Add : Outstanding	320	1,792		
To Telephones	816			
Add : Outstanding	80	896		
To Insurance	672			
Less : Prepaid	240	432		
To Sundry expenses		2,912		
To Depreciation on :				
Building @ 5% on Rs. 17,920	896			
Furniture @ 6% on Rs. 800	48			
Motor Vans @ 20% on Rs. 2,400 for 1 year Rs. 480 and on Rs. 4,160 for 9 months Rs. 624	1,104	2,048		
To Accounting charges outstanding		400		
To Profit c/f to P & L Appropriation A/c		71,056		
		95,648		95,6...

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Income tax advance	800		By Profit b/f from P & L A/c		71,056
Add: Income tax payable	5,200	6,000			
To Net Profit c/f To Capital A/c		65,056			
		71,056			71,056

BALANCE SHEET OF MR. A
as on 31st December, 1971

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Sundry Creditors		20,000	Cash at Bank		16,000
Expenses outstanding			Land		20,000
			Buildings	11,200	
Income tax	5,200		*Add*: Additions as on 1.1.1971	6,720	
Accountancy charges	400				
Light and Fans	320			17,920	
Telephones	80	6,000	*Less*: Depreciation [illegible]	895	[illegible]
A's Capital A/c	42,400				
Add: Net Profit b/f from P & L Appropriation A/c	65,056		Furniture	[illegible]	
			Less: Depreciation [illegible]	[illegible]	[illegible]
	1,07,456				
Less: Drawings	11,200	[illegible]	[illegible]	[illegible]	
			[illegible] Additions [illegible]	[illegible]	
				[illegible]	
Total [illegible]		[illegible]	Total [illegible]	[illegible]	

Total b/fd	1,22,256	Total b/fd	6,560	53,776
		Less: Depreciation @ 20%: On Rs. 2,400 for 1 year Rs. 480 and on Rs. 4,160 for 9 months Rs. 624	1,104	5,456
		Sundry Debtors		7,888
		Stock in hand		54,000
		Expenses prepaid:		
		Insurance	240	
		Rates	160	
		Motor expenses	480	880
		Cash on Hand		256
	1,22,256			1,22,256

Problem 12

The following are the Trial Balance, Profit & Loss Account and Balance Sheet of Deepak Traders, a proprietory concern of Shri Deepak Patel:

TRIAL BALANCE
as on 31st March 1976

Name of Account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Deepak's Capital Account		1,00,000
Borrowings		50,000
Investments: 9% Debentures	1,00,000	
Interest on Debentures		6,750
Salaries	11,000	
Rent	2,200	
Insurance	2,000	
Rates and Taxes	500	
Motor-car	20,000	
Motor-car expenses	6,000	
Deepak's drawings	15,000	
Office expenses	22,725	
Gross profit		60,000
Stock	17,275	
Cash and bank Balances	5,050	
Debtors and Creditors	30,000	15,000
	2,31,750	2,31,750

M/S DEEPAK TRADERS

PROFIT AND LOSS ACCOUNT

for the year ended on 31st March, 1976

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Salaries	12,000	By Gross Profit b/fd	60,000
To Rent	2,400	By Income from Investments	9,000
To Insurance	1,500		
To Rates and Taxes	375		
To Motor-car expenses	3,000		
To Depreciation—Motor-car	2,000		
To Office expenses	22,725		
To Net Profit to Capital A/c	25,000		
	69,000		69,000

BALANCE SHEET

as on 31st March, 1976

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Deepak's Capital A/c as per last year	1,00,000		Motor-car : as per last year	20,000	
Add : Profit for the year	25,000		*Less* : Depreciation	4,000	16,000
	1,25,000				
Less : Drawings	20,000	1,05,000	Investments : 9% Debentures		1,00,000
Borrowings		50,000	Interest accrued but not due		2,250
Creditors		15,000			
Liability for outstanding expenses		1,200	Prepaid expenses		625
			Stock		17,275
			Debtors		30,000
			Cash and Bank balances		5,050
		1,71,200			1,71,200

Explain briefly what do you understand from the following items appearing in the Balance Sheet and how they have been arrived at ;

Total b/fd	1,22,256	Total b/fd	6,560	53,776
		Less: Depreciation @ 20%: On Rs. 2,400 for 1 year Rs. 480 and on Rs. 4,160 for 9 months Rs. 624	1,104	5,456
		Sundry Debtors		7,888
		Stock in hand		54,000
		Expenses prepaid :		
		Insurance	240	
		Rates	160	
		Motor expenses	480	880
		Cash on Hand		256
	1,22,256			1,22,256

Problem 12

The following are the Trial Balance, Profit & Loss Account and Balance Sheet of Deepak Traders, a proprietory concern of Shri Deepak Patel :

TRIAL BALANCE

as on 31st March 1976

Name of Account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Deepak's Capital Account		1,00,000
Borrowings		50,000
Investments : 9% Debentures	1,00,000	
Interest on Debentures		6,750
Salaries	11,000	
Rent	2,200	
Insurance	2,000	
Rates and Taxes	500	
Motor-car	20,000	
Motor-car expenses	6,000	
Deepak's drawings	15,000	
Office expenses	22,725	
Gross profit		60,000
Stock	17,275	
Cash and bank Balances	5,050	
Debtors and Creditors	30,000	15,000
	2,31,750	2,31,750

M/S DEEPAK TRADERS

PROFIT AND LOSS ACCOUNT

for the year ended on 31st March, 1976

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Salaries	12,000	By Gross Profit b/fd	60,000
To Rent	2,400	By Income from Investments	9,000
To Insurance	1,500		
To Rates and Taxes	375		
To Motor-car expenses	3,000		
To Depreciation—Motor-car	2,000		
To Office expenses	22,725		
To Net Profit *to* Capital A/c	25,000		
	69,000		69,000

BALANCE SHEET

as on 31st March, 1976

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Deepak's Capital A/c			Motor-car :		
as per last year	1,00,000		as per last year	20,000	
Add : Profit for the year	25,000		*Less* : Depreciation	4,000	16,000
	1,25,000				
Less : Drawings	20,000	1,05,000	Investments : 9% Debentures		1,00,000
Borrowings		50,000	Interest accrued but not due		2,250
Creditors		15,000			
Liability for outstanding expenses		1,200	Prepaid expenses		625
			Stock		17,275
			Debtors		30,000
			Cash and Bank balances		5,050
		1,71,200			1,71,200

Explain briefly what do you understand from the following items appearing in the Balance Sheet and how they have been arrived at :

		Rs.
(1)	Interest accrued but not due	2,250
(2)	Prepaid Expenses	625
(3)	Liability for Outstanding Expenses	1,200
(4)	Motor-car	16,000
(5)	Deepak's drawings	20,000

(I.I B. Part I, May 1976)

Solution:

(1) Interest accrued but not due: Rs. 2,250

From The Trial Balance and the Balance Sheet of M/s Deepak Traders, it is evident that they have made investments in 9% Debentures. Hence, interest on debentures for a year amounts to Rs. 9,000, which has been shown clearly on the credit side of the Profit & Loss account under the head Income from Investments.

Further, it is noticed that they have received only a sum of Rs. 6,750 by the end of 31st March, 1976 as given in the Trial Balance.

Thus, Interest for 3 months had accrued but was not due as on 31st March, 1976. That is why, a sum of Rs. 2,250 (9,000 × 3/12=2,250) has been shown in the Interest accrued account on the Assets side of the Balance Sheet.

In Short:

	Rs.
Interest accrued on Rs. 1,00,000 @ 9%	9,000
Less: Interest received	6,750
Interest accrued but not due	2,250

The adjusting journal entry for the same will be:

Date	*Particulars*	*L. F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
1976 March 31	Interest accrued but not due A/c Dr.		2,250	
	To Income from Investments A/c			2,250

(2) Prepaid Expenses : Rs. 625

This comprises of two items—Rs. 500 for Insurance, and
Rs. 125 for Rates and Taxes.

(a) **Insurance:** From the Trial Balance, it is noticed that a sum of Rs. [illegible] has been paid on this account during the period. However, the insurance premium was due for the year ended 31.3.1976 only to the extent of Rs. [illegible] as shown on the debit side of the Profit and Loss Account.

Thus a sum of Rs. 500 is prepaid towards Insurance.

In Short:

	Rs.
Insurance Premium paid	2,000
Less: Premium due for the year	1,500
Insurance Prepaid for the next year	500

(*b*) **Rates and Taxes.** The total amount paid on this account during the year is Rs 500 as given in the Trial Balance. The actual amount due for the period is only Rs. 375 as given on the debit side of the Profit & Loss Account.

Hence, a sum of Rs. 125 is prepaid on account of rates and taxes.

In Short:

	Rs.
Rates and Taxes paid	500
Less: Rates and Taxes due for the year	375
Rates and Taxes Prepaid for the next year	125

The adjusting journal entry for these will be:

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1976				Rs.	Rs.
March 31	Prepaid expenses A/c	Dr.		625	
	To Insurance				500
	To Rates and Taxes				125

(3) Liability for Outstanding Expenses : Rs. 1,200

This comprises of two items—Rs. 1,000 on account of Salaries, and Rs. 200 on account of Rent.

(*a*) **Salaries.** The firm has paid a sum of Rs. 11,000 towards salary during the year ended 31.3.1976 as shown in the Trial Balance. The total amount due on this account is Rs. 12,000 as shown on the debit side of the Profit & Loss A/c.

Thus a sum of Rs. 1,000 is outstanding towards Salaries.

In Short:

	Rs.
Salaries due for the period	12,000
Less Salaries paid	11,000
Salaries outstanding	1,000

(b) **Rent.** An amount of Rs. 2,400 is due on this account as shown on the debit side of the Profit & Loss Account. The total amount paid during the period is only Rs. 2,200 as given in the Trial Balance.

Thus a sum of Rs. 200 is outstanding towards Rent.

In Short:

	Rs.
Rent due for the period	2,400
Less: Rent Paid	2,200
Rent outstanding	200

The adjusting journal entry for this will be :

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1976			Rs.	Rs.
March				
31	Salaries A/c	Dr.	1,000	
	Rent A/c	Dr.	200	
	To Liability for outstanding expenses			1,200

(4) **Motor-car : Rs 16,000**

The book value of the Motor-car is Rs. 20,000 as shown in the Trial Balance. Rs. 2,000 have been debited to the Profit & Loss Account on account of depreciation on it. However, in the Balance Sheet Rs. 4,000 have been deducted as depreciation, which means that the excess Rs. 2,000 charged are recovered from Shri Deepak Patel, the proprietor on account of the private use of the Car made by him.

Hence the value of the Car is Rs. 16,000.

In Short:

		Rs.
Book value as per last year		20,000
Less Depreciation :		
Debited to P & L A/c	Rs. 2,000	
Debited to Drawings A/c	Rs. 2,000	4,000
		16,000

The adjusting entry for this is:

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1976			Rs.	Rs.
March				
31	Depreciation on Motor-car A/c	Dr.	2,000	
	[illegible] A/c	Dr.	2,000	
	To Motor-car A/c			4,(

(5) Deepak's Drawings Account: Rs. 20,000

Deepak's drawings as shown in the Trial Balance are Rs. 15,000. It is, however, noticed from the Trial Balance that a sum of Rs, 6,000 has been incurred on account of Motor-car expenses, but only half of it, *i.e.*, Rs. 3,000 have been charged to the Profit & Loss Account. This means that the excess Rs. 3,000 has been recovered from the proprietor on account of the private use of the Car made by him. Further, he has been debited with Rs. 2,000 on account of half share of depreciation on Motor-car (as explained in 4 above). The total Drawings of the proprietor thus comes to Rs. 20,000.

In Short:

	Rs.
Amount withdrawn during the year	15,000
Add. One-half share in the Motor-car expenses on account of private use	3,000
Add. One-half share in the Depreciation on Motor-car on account of private use	2,000
	20,000

The adjusting entry will be passed as under:

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1976			Rs.	Rs.
March				
31	Deepak's Drawings A/c Dr.		5,000	
	To Motor-car expenses A/c			3,000
	To Depreciation on Motor-car A/c			2,000

Problem 13. Shri Mohanlal is the proprietor of a business. The following Trial Balance was prepared from his books as on 31st March, 1978:

TRIAL BALANCE

Debit	*Rs.*	*Credit*	*Rs.*
Land and Building	40,000	Sales	4,68,100
Purchases	3,26,700	Dividends	960
Returns	2,500	12% Bank Loan	40,000
Travelling expenses	6,900	(Secured on fixed	
Printing and stationery	1,600	assets—no movement	
Cash at Bank	30,790	during the year)	
Discount	1,800	Capital A/c	80,000
Misc. expenses	18,620	Bills payable	2,600
Debtors	64,000	Creditors	63,130
Postage	800	Returns	3,700
Total c/fd	4,93,710	Total c/fd	6,58,490

			Rs.	Rs.
(7)	Stock-on-hand A/c To Trading A/c	Dr.	45,000	45,000
(8)	Salaries prepaid A/c To Salaries A/c	Dr.	1,500	1,500
(9)	Interest on Bank Loan A/c To Bank Loan A/c	Dr.	1,800	1,800

Working Notes :

Re : Adjustment No. 2

(A) The goods were sold at a profit of 25% on sales, which means that :

If selling price is Rs. 100, profit is Rs. 25

But profit is always calculated on cost price, thus

Cost Price = Selling Price—Profit

Rs. 75 = Rs. 100 — Rs. 25

Hence, Rs. 25 is the profit on Rs. 75, which is 1/3rd of the Cost Price.

In this case purchases were made for a sum of Rs. 33,000, therefore, Profit comes to Rs. 11,000, and the sale proceeds are Rs. 44,000.

(B) The profits and losses of Joint Venture are to be borne equally by Mohanlal and Roharlal. This will be arrived at as under :

JOINT VENTURE ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Amount*
	Rs.	Rs.		Rs.
To Purchases A/c		33,000	By Sales A/c	44,000
To Rohanlal		1,500		
To Joint-venture expenses A/c		800		
To Mohanlal	4,350			
To P & L A/c	4,350	8,700		
		44,000		44,000

Re : Adjustment No. 4

(C) [illegible] the Bank balance as per Cash Book is given [illegible] and the Creditors account shows a credit balance of

Rs. 63,130. But at the time of preparing the Bank Reconciliation Statement, it has been noticed that two cheques of Rs. 1,200 and Rs. 1,800 (Total amounting to Rs. 3,000) were issued but not yet presented for payment in the bank. The adjusting journal entry has been passed to increase the bank balance by Rs. 3,000 and to increase the balance of Creditors as well.

Re : Adjustment No. 5

(D) Sundry Debtors are amounting to Rs. 64,000, out of which Rs. 1,100 are irrecoverable, *i e.,* the good Debtors are amounting to Rs. 62,900. Reserve for bad and doubtful debts @ 5% is provided on this amount of good Debtors.

Re : Adjustment No. 6

(E)	Land and Building balance as on 31.3.1978	40,000
	Depreciation provided on it @ 10%	4,000
	Furniture balance as on 31.3.1978	8,000
	Depreciation provided on it @ 10%	800
	Motar Car balance as on 31.3.1978	16,000
	Depreciation provided on it @ 20 %	3,200

Re : Adjustment No. 8

(F)	Total Salaries paid during the year	22,000
	Less : Salaries paid in advance	1,500
	Salaries relating to the period	20,500

Re : Adjustment No. 9

		Rs.
(G)	Bank Loan as on 1.4.1977	40,000
	Interest @ 12% p.a. due on Bank Loan	4,800
	Less : Interest on Bank Loan paid during the year ended 31 3 1978 as given in the Trial Balance	3,000
	Interest on Bank Loan outstanding as on 31.3.1978	1,800

This amount has been credited in the Bank Loan Account. This may also be shown separately as Interest on Bank Loan outstanding Account.

Total b/fd	66,130	1,29,962	Total b/fd		1,36,745
Add: Net amount payable to Sohanlal (32,000—4,200)	27,800		Investments (Market Value Rs. 14,000)		12,000
Add: Net amount payable to Rohanlal Co-venturer (1,500+4,350)	5,850	99,780	Bills Receivable		4,800
			Closing Stock		45,000
			Advertisement prepaid A/c		12,000
			Salaries paid in advance A/c		1,500
			Motor-car A/c	16,000	
			Less: Depreciation @ 20%	3,200	12,800
			Cash in hand		4,900
		2,29,745			2,29,745

Problem 14. Mr. A keeps his books under Single Entry System. The position of his business as on 1st January, 1970 was as under :

Sundry creditors Rs. 17,000; Freehold Premises Rs. 50,000; Stock Rs. 25,000; Sundry Debtors Rs. 20,000; Furniture Rs. 2,000.

The following is the summary of his Cash Book:

Receipts	*Amount*	*Payments*	*Amount*
	Rs.		Rs.
Sundry Debtors	15,000	Bank Balance 1st Jan., 1970—Overdraft	10,000
Cash Sales	80,000	Expenses	50,000
		Drawings	3,000
		Sundry Creditors	20,000
		Cash in hand	2,000
		Cash at Bank	10,000
	95,000		95,000

The following further information is available :

Closing stock Rs. 30,000 ; Closing Debtors Rs. 25,000 ; Closing Creditors Rs. 12,000 ; Depreciate premises by 10% and Furniture by 15% ; Create a bad debt reserve by 2½% : Expenses include Rs. 2,500 for house rent of Mr. A and Cash Sales include Rs. 2,000 for sale of his personal jewellery.

You are required to prepare a Trading and Profit & Loss Account for the year ended 31st December 1970 and a Balance Sheet as on that date.

Show your detail working.

(*I.I.B. Part I, October 1971*)

Solution:

TRADING AND PROFIT & LOSS ACCOUNT OF A
for the year ended 31st December, 1970

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Opening stock		25,000	By Sales :		
To Purchases			Credit	20,000	
(Credit)		15,000	Cash	78,000	98,000
To Gross Profit (*Balancing figure*)		88,000	By Closing Stock		30,000
		1,28,000			1,28,000
To Expenses		47,500	By Gross Profit b/f from Trading A/c		88,000
To Depreciation :					
On Premises @ 10% on Rs. 50,000	5,000				
On Furniture @ 15% on Rs. 2,000	300	5,300			
To Reserve for Bad and doubtful debts @ 2½% on Rs. 25,000		625			
To Net Profit (*Balancing figure*)		34,575			
		88,000			88,000

BALANCE SHEET OF A
as on 31st December, 1970

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
A's Capital :	70,000		Freehold Premises	50,000	
Add : Capital introduced (by selling personal jewellery)	2,000		*Less* : Depreciation @ 10%	5,000	45,000
Total c/fd	72,000		Total c/fd		

	Rs.	Rs.		Rs.	Rs.
Total b/fd		72,000	Total b/fd		45,000
Add : Profit for the year	34,575		Furniture	2,000	
	1,06,575		*Less* : Depreciation @ 15%	300	1,700
Less : Drawings House rent 2,500, Cash 3,000	5,500	1,01,075	Debtors	25,000	
			Less : Reserve for bad and doubtful debts @ 2½%	625	24,375
Sundry Creditors		12,000	Closing stock		30,000
			Cash on hand		2,000
			Cash at Bank		10,000
		1,13,075			1,13,075

Workings :

(1) Calculation of Credit Purchases :

Dr. SUNDRY CREDITORS A/C *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Cash (paid to them)	20,000	By Balance b/f (as on 1st January)	17,000
To Balance c/f (as on 31st December)	12,000	By Purchases (*Balancing figure*)	15,000
	32,000		32,000

(2) Calculation of Credit Sales :

Dr. SUNDRY DEBTORS A/C *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/f (as on 1st January)	20,000	By Cash (Received from them)	15,000
To Sales (*Balancing figure*)	20,000	By Balance c/f (as on 31st December)	25,000
	40,000		40,000

(3) Calculation of Cash Sales :

Total Cash Sales	Rs. 80,000	
Less : Sales of A's personal jewellery included in sales instead of being credited to his Capital Account as capital introduced by him	Rs. 2,000	Rs. 78,000

(4) Calculation of A's Capital as on 1st January, 1970

BALANCING SHEET OF A

as on 1st January, 1970

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Sundry Creditors	17,000	Freehold Premises	50,000
Bank overdraft	10,000	Stock	25,000
A's Capital		Sundry Debtors	20,000
(*Balancing figure*)	70,000	Furniture	2,000
	97,000		97,00

Problem 15 F [illegible] the book[illegible] the year [illegible]

	Rs.
Sundry Debtors	52,000
Creditors	22,000
Cash in hand	2,392
Furniture	3,500
Motor car	22,000
Purchases	1,45,000
Sales	2,92,000
Sales Returns	2,600
Salaries	8,420
Opening Stock	11,400
Motor car expenses	6,108
Rent, rates and taxes	3,600
Insurance premium paid on 1st October 1975	2,400
Cash at Bank	6,200
Machinery	24,000
Wages	
General expenses	

Carriage inwards	2,040
Carriage outwards	1,630
Fuel and power	6,430
Kerkar's Capital	20,000
Drawings	8,000

The following information is relevant :

(1) Closing Stock Rs. 35,000.

(2) Goods worth Rs. 2,000 were distributed as free samples.

(3) Rs. 1,000 paid for machinery erection was debited to wages account.

(4) Write off further bad debts Rs. 2,000 and create a Reserve for doubtful debts at 5% of Sundry Debtors.

(5) Depreciate Furniture and Machinery by 10% and Motor-car by 20%.

(6) Commission of Rs. 3,600 has been earned but not received till the close of the accounting year.

(7) An amount of Rs. 10,000 was borrowed from Mr. Paranjpe on 1st July, 1974 and it was returned on 31st December, 1974. However, interest at 10% p.a. still remains unpaid.

(*I.I.B. Part I, November 1975*)

Solution:

TRADING AND PROFIT & LOSS ACCOUNT
OF M/S KERKAR

Dr. for the year ended 31st December, 1974 Cr.

Particulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Opening Stock		11,400	By Sales	2,92,000	
To Purchases	1,45,000		*Less*: Sales returns	2,600	2,89,400
Less: Cost of free samples distributed transferred to Advertisement A/c in the Profit & Loss A/c	2,000	1,43,000	By Closing stock.		35,000
To Wages	23,600				
Less: Erection charges for machinery wrongly debited to Wages Account, transferred to Machinery Account in the Balance Sheet	1,000	22,600			
To Carriage inwards		2,040			
To Fuel and power		6,430			
To Gross Profit		1,38,930			
		3,24,400			3,24,400

Salaries		8,420	By Gross Profit b/f from Trading A/c	1,38,930
Motor-car xpenses		6,108	By Commission (due but not yet received)	3,600
o Rent, rates & axes		3,600		
'o Insurance	2,400			
Less: Prepaid for 9 months from 1-1-1975 to 30-9-1975	1,800	600		
To General expenses		2,680		
To Carriage outwards		1,630		
To Advertisment (Distribution of free samples)		2,000		
To Bad Debts (Written off)		2,000		
To Reserve for bad & doubtful detbts @ 5% on Rs. 50,000, *i.e.*, Rs. 52,000—2,000)		2,500		
To Depreciation:				
On Furniture @ 10% on Rs. 3,500	350			
On Machinery @ 10% on Rs. 25,000 (Rs. 24,000+1000)	2,500			
On Motor-car @ 20% on Rs. 22,000	4,400	7,250		
To Interest on Loan (@ 10% on Rs. 10,000 for 6 months from 1-7-1974 to 31-12-1974)		500		
To Net Profit		1,05,242		
		1,42,530		1,42,530

BALANCE SHEET OF M/S KERKAR
as on 31st December, 1974

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Kerkar's Capital A/c :	20,000		Sundry Debtors	52,000	
Less : Drawings	8,000		*Less* : Bad Debts	2,000	
	12,000			50,000	
Add : Net profit for the year	1,05,242	1,17,242	*Less* Reserve for Doubtfull Debts @ 5%	2,500	47,500
Creditors		22,000	Cash in hand		2,392
Outstanding expenses :			Furniture	3,500	
Interest on Loan		500	*Less*: Depreciation @ 10%	350	3,150
			Motor-car	22,000	
			Less : Depreciation @ 20%	4,400	17,600
			Cash at Bank		6,200
			Machinery	24,000	
			Add : Erection charges wrongly debited to wages account	1,000	
				25,000	
			Less : Depreciaction @ 10%	2,500	22,500
			Stock in hand		35,000
			Outstanding Incomes : Commission earned but not received		3,600
			Prepaid Expenses : Insurance premium paid upto 30-9-1975		1,800
		1,39,742			1,39,742

Problem 16. Prepare a Trading and Profit and Loss account for the year ended 31st December 1980, and Balance Sheet of the Premier Trading Company, as at 31st December 1980, from the following extract of ledger Balances and additional information.

Please clearly show your working on Reserves on Doubtful Debts, and Depreciation, separately :—

	Rs.
Proprietor's Capital Account	1,19,400
Proprietor's Drawings Account	10,550
Bills Receivable	9,500
Plant and Machinery	28,800
Wages	40,970
Salaries	11,000
Sundry Debtors	62,000
Sundry Creditors	59,630
Loan (Received) *Cr.* at 6%	20,000
Returns inwards	2,780
Purchases	2,56,590
Sales	3,56,430
Commission received	5,640
Discount allowed	5,870
Rent and taxes	5,620
Stock 1st January 1980	89,680
Travelling expenses	1,880
Insurance (Annual Premium Rs. 300 ; paid up to March 1981)	400
Cash	530
Bank—(Debit Balance)	18,970
Repair and renewals	3,370
Bad debts	3,620
Fixtures & Fittings	8,970

The following additional information is also available :—

(1) Stock on hand on 31st December 1980 was Rs. 1,28,960.

(2) Sundry Debtors include Rs. 1,000, Doubtful receivable from Mr. Rathod of which Rs. 500 is to be written off.

(3) Create a reserve of 5% on Sundry Debtors.

(4) Interest @ 5% per annum to be allowed on Proprietor's capital.

(5) Wages include Rs. 1,200 for erection of new machinery purchased last year.

(6) Depreciate Plant and Machinery by 5% and Fixtures and Fittings by 10% per annum.

(7) Commission earned, not received Rs. 600.

(8) Interest on loan for the last two months is not paid.

(I.I.B. Part I, November 1981)

TRADING AND POFIT & LOSS ACCOUNT OF
THE PREMIER TRADING COMPANY
for the year ending 31st December, 1980

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Stock 1-1-1980	—	89,680	By Sales	3,56,430	
To Purchases		2,56,590	*Less*: Returns Inwards	2,780	3,53,650
To Wages	40,970				
Less: for erection of new machinery	1,200	39,770	By Closing Stock		1,28,960
To Gross Profit		96,570			
		4,82,610			4,82,610
To Salaries		11,000	By Gross profit		96,570
To Discount allowed		5,870	By Commission	5,640	
To Rent & taxes		5,620	*Add*: Earned but not received	600	6,240
To Travelling expenses		1,880			
To Insurance premium	400				
Less: Prepaid upto March, 1981	100	300			
To Repairs & renewals		3,370			
To Bad Debts	3,620				
Add. Written off	500	4,120			
To Reserve for doubtful debts (@ 5% on Rs. 61,500)		3,075			
To Interest on Capital outstanding (@ 5% on Rs. 1,19,400)		5,970			
To Depreciation on:					
Plant & Machinery (@ 5% on Rs. 30,000)		1,500			
Fixtures & Fittings (@ 10% on Rs. 8,970)		897			
To Interest on loan outstanding (@ 6% on Rs. 20,000) for two months)		200			
To Net Profit c/fd. to Capital A/c		59,008			
		1,02,810			1,02,810

Note: Interest on Loan @ 6% p.a. on Rs. 20,000 for a period of 10 months paid during the period is not shown in the Trial Balance. It is assumed that this amount of Rs. 1,000 has been included in some other account.

BALANCE SHEET
OF THE PREMIER TRADING COMPANY
as on 31st December, 1980

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Proprietor's Capital A/c	1,19,400		Bills Receivable		9,500
Add: Net Profit	59,008		Plant & Machinery	28,800	
Add: Interest on capital	5,970		*Add*: Wages paid for erection of machinery	1,200	
	1,84,378			30,000	
Less: Drawings	10,550	1,73,828	*Less*: Depreciation @ 5%	1,500	28,500
6% Loan A/c	20,000				
Add: Interest outstanding	200	20,200	Sundry Debtors	62,000	
Sundry Creditors		59,630	*Less*: Bad debts written off	500	
				61,500	
			Less: Reserve for doubtful debts @ 5%	3,075	58,425
			Insurance Premium prepaid upto 31st March		100
			Cash		530
			Bank		18,970
			Fixture & Fittings	8,970	
			Less: Depreciation @ 10%	897	8,073
			Stock on hand		1,28,960
			Commission outstanding		600
		2,53,658			2,53,658

Problem 17. From the following Trial Balance of Shishir, you are required to prepare Final Accounts for the year ended 31st March 1979, after making the necessary adjustments :

Name of the Account	*Debit*	*Credit*
	Rs.	Rs.
Capital and Drawings accounts	10,000	2,00,000
Freehold property	60,000	
Plant and machinery	1,00,000	
Salaries	14,000	
Printing and stationary	2,000	
Furniture and fixtures	4,000	
Discount	1,500	
Bills payable		5,700
Debtors and Creditors	25,000	40,000
Insurance	3,000	
Bad debts	600	
Office rent	2,600	
Loose tools	2,000	
Provision for doubtful debts		4,800
Loan to Sudhir at 10% on 1st October 1978	40,000	
Interest on loan to Sudhir		1,000
Cash at Bank	25,000	
Cash on hand	10,500	
Stock-31st March 1979	74,000	
Trading profits		1,17,200
Outstanding wages—31st March 1979		500
Insurance claim received for loss of goods		5,000
	3,74,200	3,74,200

Adjustments :

(1) Outstandig salaries—Rs. 700.

(2) Prepaid insurance—Rs. 400.

(3) Value of Loose tools on 31st March 1979 Rs. 1,500.

(4) A new machinery was purchased on credit and installed on 28th February 1979 costing Rs 15,000. No entry for the same has yet been made in the books.

(5) Depreciate (on closing balance)—
Plant and machinery at 10%,
Furniture and fixtures at 5%.

(6) The Provision for doubtful debts is to be maintained @ 5%.

(*I.I.B. Part I, April 1979*)

Solution :

PROFIT & LOSS ACCOUNT OF SHISHIR
for the year ended 31st March, 1979

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Salaries	14,000		By Trading profits		1,17,200
Add : Outstanding	700	14,700	By Provision for doubtful debts	4,800	
			Less : Bad debts	600	
To Printing and stationery		2,000		4,200	
To Discount		1,500	*Less* : Provisions required @ 5% on Rs. 25,000	1,250	2,950
To Insurance	3,000				
Less : Prepaid	400	2,600			
To Office rent		2,600	By Interest on loan to Sudhir	1,000	
To Depreciation :					
On Plant and machinery [@ 10% on the closing balance of Rs. 1,15,000 (Rs. 1,00,000+ Rs. 15,000)]	11,500		*Add* : Outstanding @ 10% an Rs. 40,000 for 6 months from 1-10-1978 to 31-3-1979, *i.e.*, Rs. 2,000, out of which Rs. 1,000 already received)	1,000	2,000
On Furniture and fixtures (@ 5% on Rs. 4,000)	200				
On Loose tools (Rs. 2,000—1,500)	500	12,200	By Insurance claim received for loss of goods		5,000
To Net Profit		91,550			
		1,27,150			1,27,150

BALANCE SHEET OF SHISHIR
as on 31st March, 1979

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Capital a/c	2 00,000		Freehold properly		60,000
Add: Net profit	91,550		Plant & machinery	1,00,000	
	2,91,550		*Add*: Purchased on 28-2-1979	15,000	
Less: Drawings	10,000	2,81,550		1,15,000	
Creditors	40,000				
Add: Suppliers of machinery	15,000	55,000	*Less*: Depreciation @ 10% on closing balance	11,500	1,03,500
Bills payable		5,700	Furniture and fixtures	4,000	
Outstanding expenses: Wages	500		*Less*: Depreciation @5%	200	3,800
Salaries	700	1,200	Loose tools	2,000	
			Less: Depreciation	500	1,500
			Debtors	25,000	
			Less: Provision for doubtful debts @ 5%	1,250	23,750
			Loan to Sudhir at 10%	40,000	
			Add: Interest outstanding	1,000	41,000
			Cash at Bank		25,000
			Cash on hand		10,500
			Stock (31-3-1979)		74,000
			Prepaid expenses: Insurance		400
		3,43,450			3,43,450

ADJUSTING JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Salaries A/c	Dr.		700	
	To Salaries outstanding A/c				700
	(Being Salaries outstanding for the period)				
(2)	Insurance prepaid A/c	Dr.		400	
	To Insurance A/c				400
	(Being insurance changes paid in advance for the next period)				
(3)	Depreciation A/c	Dr.		500	
	To Loose tools				500
	(Being the value of loose tools decreased from Rs. 2,000 to Rs. 1,500)				
(4)	Machinery A/c	Dr.		15,000	
	To Suppliers of Machinery				15,000
	(Being machinery purchased on 28-2-1979 on credit but not recorded in the books, now rectified)				
(5)	Depreciation A/c	Dr.		11,500	
	To Plant & Machinery A/c				11,500
	(Being depreciation provided on plant and machinery @ 10% on the closing balance of Rs. 1,15,000, *i.e.*, the opening balance of Rs. 1,00,000 *plus* purchases during the period for Rs. 15,000)				
(6)	Sundry Debtors A/c	Dr.		2,950	
	To Provision for doubtful debts A/c				2,950
	[Being the old provision of Rs. 4,800 is reduced to Rs. 4,200 for the bad debts amounting to Rs 600 during the period. The provision for doubtful debts is to be maintained @ 5% on Sundry Debtors amounting to Rs. 25,000), *i.e.*, Rs. 1,250. Therefore, the existing provision is reduced by the difference (Rs. 4,200 — Rs. 1,250)]				

Problem 18. From the following Trial Balance of Shri Kumar, prepare Trading and Profit and Loss Account for the year ended 31st March 1979 and a Balance Sheet as on that date :

Name of the Account	*Debit*	*Credit*
	Rs.	Rs.
Stock at beginning	55,000	
Purchases and Sales	1,92,500	2,93,500
Wages and salaries	12,500	
Carriage inward	4,000	
Insurance	3,500	
Bills Receivable and Bills Payable	22,500	18,500
Commission	4,000	
Interest	3,500	
Trade expenses	3,450	
Debtors and Creditors	1,50,000	93,250
Furniture [illegible]*il 1978*	6,000	
Cash in hand and at Bank	42,250	
Rent and taxes	12,750	
Sale of furniture on *31st March 1979*		1,000
Discount received		200
Charges paid against consignment	8,000	
Sales—Re-consignment		64,000
Consignor's balance on *1st April 1978*		40,000
Cash sent to Consignor	80,000	
Capital		89,500
	5,99,950	5,99,950

Adjustments :

(*i*) Stock on 31st March 1979 Rs. 80,000 (including stock of stationery Rs. 80).

(*ii*) Trade expenses include payments for stationery Rs. 2,250.

(*iii*) Stock at beginning includes stock of stationery in the beginning Rs. 180.

(*iv*) Creditors at the end include Creditors for stationery Rs. 300 for credit purchases.

(*v*) Furniture sold was appearing in the Balance Sheet as on 31st March 1978 at Rs. 1,300.

(*vi*) Stationery of Rs. 200 was consumed by the proprietor.

(*vii*) Bills Receivable include a dishonoured bill of Rs. 800.

(*viii*) Included in the Debtors is an amount of Rs. 200 in respect of a bankrupt debtor whose estate is expected to realise not more than 25 paise in a rupee and an item of Rs. 500 for goods supplied to the proprietor.

(*ix*) Make provision for doubtful debts at 5% on debtors.

(*x*) Commission receivable on sale of consignment Rs. 4,000 is to be provided.

(*I.I.B. Part I, November 1979*)

Solution :

TRADING AND PROFIT & LOSS ACCOUNT OF SHRI KUMAR

Dr. for the year ending 31st March, 1979 *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Opening stock	55,000		By Sales		2,93,500·00
Less : Stock of stationery	180	54,820·00	By Closing stock	80,000	
			Less : Stock of stationery	80	79,920·00
To Purchases	1,92,500				
Less : for stationery	300	1,92,200·00			
To Wages and salaries		12,500·00			
To Carriage inward		4,000·00			
To Gross profit c/d (*Balancing figure*)		1,09,900·00			
		3,73,420·00			3,73,420·00
To Insurance		3,500·00	By Gross profit b/d		1,09,900·00
To Commission		4,000·00	By Discount received		200·00
To Interest		3,500 00	By Commission receivable (*On sale of consigment*)		4,000·00
To Trade expenses	3,450				
Less : Payments for stationery	2,250	1,200·00			
Total c/fd		12,200·00	Total c/fd		1,14,100·00

Total b/fd		12,200·00	Total b/fd,	1,14,100·00
To Rent and taxes		12,750·00		
To Stationery consumed :				
Opening stock	180			
Add : Purchases:				
Cash	2,250			
Credit	300			
	2,730			
Less : Consumed by proprietor	200			
	2,530			
Less : Closing stock	80	2,450·00		
To Loss on sale of old furniture :				
Book value	1,300			
Less : Sale proceeds	1,000	300·00		
To Bad debts :				
Bankrupt debtor	200			
Less : 25% realisable	50	150·00		
To Provision for doubtful debts (@5% on Rs. 1,50,150)		7,507·50		
To Net profit (*Balancing figure*)		78,742·50		
		1,14,100·00		1,14,100·00

Working for Consignor's Balance:

Dr. *Consignors' A/c *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Cash	80,000	By Balance b/d	40,000
To Charges paid	8,000	By Sales	64,000
To Commission receivable	4,000		
To Balance c/d (*Balancing figure*)	12,000		
	1,04,000		1,04,000

BALANCE SHEET OF ...
an on 31st March, 1979

Liabilities	Details	Amount	Assets	Details	Amount
	Rs. P.	Rs. P.		Rs. P.	Rs. P.
Capital	89,500·00		Bills Receivable	22,500·00	
Add: Net profit	78,742·50		*Less*: Dishonoured bill transferred to Debtors A/c	800·00	21,700·00
	1,68,242·50		Debtors	1,50,000·00	
Less: Drawings transferred from Debtors A/c	500·00		*Add*: Dishonoured bill transferred from B/R A/c	800·00	
	1,67,742·50			150,800·00	
Less: Drawings transferred from stationery A/c	200·00	1,67,542·50	*Less*: Goods supplied to the proprietor transferred to Drawings A/c	500 00	
Bills Payable		18,500·00		1,50,300·00	
*Consignor's A/c		12,000·00	*Less*: Bad debts (75% of a bankrupt debtor amounting to Rs. 200)	150·00	
Trade creditors	93,250			1,50,150·00	
Less: Creditors for stationary	300·00	92,950·00	*Less*: 5% provision for doubtful debts	7,507·50	1,42,642·50
Creditors for stationery		300·00			
Total c/fd		2,91,292·50	Total c/fd		1,64,342·50

Total b/fd	2,91.292·50	Totai b/fd		8,64,342·50
		Furniture 1.4.78	6,000·00	
		Less: Furniture sold	1,300·00	4,700·00
		Cash in hand and at Bank		42,250·00
		Stock in hand	80,000·00	
		Less: Stock of stationery	80·00	79,920·00
		Stock of stationery in hand		80·00
	2,91,292·50			2,91,292 50

C

RESERVES AND PROVISIONS SINKING AND RESERVE FUNDS

Problem 1. Distinguish between 'Provision' and 'Reserve'.

Solution. Every business is full of risks and uncertainties and in order to save the concern from such mishappenings and undesired events, it is necessary for every business to make provisions and reserves.

Provisions. Provisions mean any amount written off or retained by way of providing for depreciation, renewals or diminution in the value of assets ; or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. (If the amount of a liability can be ascertained, it is classified as a liability and not as a provision.)

The following are instances of amounts retained in the business out of earnings for different purposes, which are known as Provisions :

(1) Provision for Depreciation on Assets.

(2) Amount set aside for writing off Bad Debts, Provision for Doubtful Debts, Provision for Discount on Debtors, etc.

(3) An appropriation made for payment of taxes still to be assessed.

(4) Amount provided for meeting claims which are admissible in principle but the amount whereof has not been ascertained, *i.e.*, Provision for Contingent Liabilities.

(5) Provision for Repairs and Renewals, etc.

Provision is a charge against profit, and it is debited to Profit & Loss Account before arriving at the figure of net profit or loss.

Reserves. Reserve means any amount which is appropriated out of profits as a matter of financial prudence to save the concern from prospective losses and liabilities. It is not meant to cover any liability, contingency, commitment or reduction in the value of an asset. Reserves are in fact provided for increasing the working capital of the business, to strengthen its financial position. Provisions that ultimately prove to be in excess of amounts required or have been made too liberally, are Reserves.

Problem 2. What is the difference between (1) General Reserve, and (2) Specific Reserve.

(I.I.B. Part I, October 1972)

Give short note on—Specific Reserve.

(I.I.B. Part I, May 1969)

Solution. Reserves are of two kinds :

(1) General Reserve, and

(2) Specific Reserve.

(1) **General Reserve.** General reserve *is* created only to strengthen the financial position of the business and to keep funds available for any future contingency or expansion that may be required. This represents accumulation of profit set apart out of divisible profits. To create the General Reserve, P [illegible] ount is debited and General Reserve Acc [illegible] eserve Account and a Profit and Loss Account with a debit balance cannot appear side by side in the Balance Sheet—one of the two will be closed by transferring to the other account.

(2) **Specific Reserve.** This reserve is created for specific purposes, such as Dividend Equalisation Reserve, Debentures Redemption Reserve, etc. Even if the Profit & Loss Account shows debit balance, the balance of any specific reser [illegible] de in the Balance Sheet. In [illegible] Specific Reserve is the other [illegible]

Problem 3. Give short note on—Secret Reserve.

(I I.B. Part I, May 1969)

Solution: **Secret Reserve.** A secret reserve is a reserve the existence of which is not disclosed in the final accounts of the concern. It is created by showing lesser value of the Assets or higher value of the Liabilities, as e.g.,

(a) By charging excessive depreciation;

(b) By writing down assets such as Premises, Stock-in-trade, Goodwill, etc., below their real values;

(c) By creating excessive provisions for Bad Debts, Discounts and other Contingencies;

(d) By charging capital expenditure as revenue expenditure, *e.g.*, additions to buildings charged to repairs account;

(e) By suppression of sales;

(f) By showing reserves as creditors;

(g) By showing a contingent liability as an actual liability, or by showing an asset as a contingent asset.

Creating secret reserve is **advantageous** to a concern on account of the following reasons:

(1) It increases the working capital of the concern.

(2) It conceals large profits made by the business.

(3) Extra-ordinary losses can be met without disturbing the financial strength as disclosed in the final accounts.

(4) Uniform rate of dividends can be maintained.

Creation of secret reserve leads to the following **disadvantages:**

(1) The final accounts of the concern do not show the actual results of trading and the true financial position.

(2) The amount of secret reserves can be mis-utilised.

(3) As the assets are shown at a lower figure, it may be disadvantageous for the concern when a claim for loss by fire is made by it to the Insurance Company.

Under the provisions of the Indian Companies Act, the creation of secret reserves is not allowed except for the Banking. Insurance and Electric Supply Companies. Any other company must seek the permission of the Central Government for creating secret reserves.

Problem 4. Give short note on Reserve Fund; Reserve Liability.

(*I.J.B. Part I, May 1969*)

Solution: Reserve Fund: The term Reserve is used if the amount represented by such reserve is utilised in the business itself. If the amount standing to the credit of the reserve is invested outside the business in Securities, the reserve will become Reserve Fund.

Reserve Liability. It is reprerented by that portion of the capital of a company which has not been called up and which the company by a special resolution has declared not to be called up, except in the event of winding up of the company. It is also known as Reserve Capital.

4

Accounts of Non-trading Concerns—Receipts & Payments Accounts—Income and Expenditure Accounts and Balance Sheets

A

RECEIPTS & PAYMENTS ACCOUNT, INCOME & EXPENDITURE ACCOUNT, AND BALANCE SHEET

Problem 1. What do you understand by Receipts and Payments Account and Income and Expenditure Account ?. Describe the procedure for converting a Receipts and Payments Account into an Income and Expenditure Account.

Solution. There are certain institutions such as Clubs, Societies, Associations, Hospitals, Educational Institutions, Trade Unions, Charitable institutions, etc., which are established only for the purpose of rendering service and not for earning profits. It is necessary to maintain proper accounts in such concerns to avoid or minimise the chances of misappropriation and embezzlement of members money. The following are the main books which are normally kept by such institutions :

(1) Register of members,

(2) Minutes book to record the proceedings of meetings,

(3) Cash Receipts Journal,

(4) Cash Payments Journal,

(5) Ledger, and

(6) Journal proper.

With the help of the above noted 3rd, 4th and 5th books, final statements of these institutions are prepared for the perusal of the members. These final statements consist of :

(*a*) Receipts and Payments Account,

(*b*) Income and Expenditure Account, and

(*c*) Balance Sheet.

(*a*) RECEIPTS AND PAYMENTS ACCOUNT :

It is a summary of actual cash receipts and payments covering a particular period. The receipts are entered on the debit side and the payments on the credit side. This account commences with the opening balance of cash in hand/cash at bank, and similarly closes with the balance of cash/bank at the end of the period.

All cash received and paid during the period, whether relating to that period, past or future, on account of capital or revenue, would be included in it. As it is mere a summary of cash transactions it does not include any incomes or expenses outstanding.

(b) INCOME AND EXPENDITURE ACCOUNT:

This is a revenue account and includes all income earned during that given period, whether actually received or not, and all expenditure incurred for the institution, whether actually paid or not.

The incomes are shown on the credit side and the expenses on the debit side. It records only the revenue items, and serve to indicate the **surplus**, *i.e.*, excess of income over the expenditure during the period, or the **deficit**, *i.e.*, the excess of expenditure over the income during that period.

(c) BALANCE SHEET:

It contains the particulars of all assets and liabilities of the concern at the date at which it is made up. The excess of the assets over liabilities is called the Capital Fund. Separate funds accounts are kept for the amounts raised for special purposes.

CONVERSION OF RECEIPTS AND PAYMENTS ACCOUNT INTO AN INCOME AND EXPENDITURE ACCOUNT

The undernoted steps are followed for the captioned purpose :

(*i*) Exclude opening and closing Cash/Bank balances.

(*ii*) Eliminate all items of capital receipts and payments.

(*iii*) Analyse the items of revenue nature on the receipts (debit) side, and exclude incomes of the previous period, or any income received in advance for the next period.

(*iv*) Provide for accrued incomes, *i.e.*, the incomes earned during the period but not yet received.

(*v*) Analyse the items of revenue nature on the payments (credit) side, and exclude expenditure of the preceeding period or the succeeding period.

(*vi*) Provide for expenditure due but not yet paid.

(*vii*) Provide for depreciation, bad-debts and any other item, which would affect the net income of the concern.

PREPARATION OF BALANCE SHEET

Balance Sheet will be prepared keeping in view the following points :

(*i*) The assets appearing in the previous year's Balance Sheet should be adjusted for any sale or purchase during the period and the depreciation. In case of sale, only the book value of the asset sold should be deducted from that asset account. The difference in the book value and the actual sale proceeds is treated as profit or loss on sale of asset and is entered in the income and expenditure account for the period.

For the sale of any asset, the amount will be shown on the receipts side of the Receipts and Payments Account and the purchase of any asset will be shown on the payments side of the above said account.

(*ii*) Expenses prepaid and Incomes accrued but not yet received will al[illegible] on the Assets side of the Balance Sheet.

(iii) If any advance has been given to a person, the amount will appear on the payments side and any recovery from him will be on the receipts side. The net receivable amount will be shown as an asset in the Balance Sheet.

(iv) The liabilities appearing in the previous year's Balance Sheet should be adjusted for any payment made against them, which information is provided by the Receipts and Payments account.

[illegible] and incomes receiv-

[illegible]

[illegible] d *on the receipts* [illegible] amount less any repay [illegible] own on the liabilities [illegible]

(vii) Special receipts like donations for buildings, etc. will be shown as a fund for that purpose on the liabilities side.

(viii) The capital fund appearing in the previous year's Balance Sheet will be adjusted for the current year's surplus or deficit as shown by the Income and Expenditure account and the net amount will be shown in the Balance Sheet on the liabilities side. Life membership fees, and entrance fees, if capitalised, will also be added in the Capital Fund.

Problem 2. Mention the important points of distinction between a Receipts & Payments Account and an Income & Expenditure Account.

(*I.I.B. Part I, April 1980*)

Solution : The distinguishing features of the above mentioned two forms of accounts are briefly enumerated below :

Receipts and Payments Account	*Income and Expenditure Account*
(1) It is a summarised and classified form of Cash and Bank transactions and the transactions are entered on the same side as in the Cash Book. It starts with the opening Cash or Bank *balance (on the debit side) or* Bank overdraft (on the credit side). It is debited with all sums received and credited with amounts paid out.	(1) It is drawn up in the same form as the Profit and Loss Account. Expenditure of revenue nature only are shown on the debit side, and incomes of revenue nature are shown on the credit *side. It does not start with an* opening balance.
(2) The balance of the account at the end of the period represents the difference between the amount of cash received and paid out. It is always in debit except where there is bank overdraft.	(2) The closing balance represents the amount by which the income exceeds the expenditure or *vice-versa.* It shows either the net surplus or deficit on the working of the concern for the period.

(3) The closing balance is carried forward and forms the opening balance of the next following period.	(3) The closing balance of the account is not carried forward, but is transferred to Capital Fund Account which is shown on the liabilities side of the Balance Sheet.
(4) All the receipts and payments, whether of a revenue nature or capital nature, are included in the account.	(4) Expenditure of a revenue nature only is shown on the Debit side, and income of revenue nature is shown on the credit side. Capital receipts and expenditures are not taken into account.
(5) It records all receipts and payments during the period, whether or not they actually relate to that period.	(5) It contains only those items of income and expenditure relevant to the period of account whether received or paid out as well as those which have fallen due for payament or have accrued for recovery. Prepaid expenses and pre-payments of income during the period are excluded. Prepaid expenses and prepayments of income during the last period pertaining to the current period are included.

Problem 3. From the following particulars prepare:

(*a*) Receipts and Payments Account, and (*b*) Income and Expenditure Account of Lehri Lala Club for the year ended 31st March, 1976:

	Rs.
Cash on hand and at Bank	
on 1-4-1975	900
on 1-4-1976	3,500
Subscriptions received	
For 1974-75	1,000
For 1975-76	9,000
Subscriptions due for 1975-76 not yet received	1,500
Receipts from Room hiring	500
Tennis court receipts	3,000
Refreshment room receipts	6,250
Salaries paid at Rs. 200 per month for 12 months up to 28th February 1976	2,400
Repairs	600

Printing and stationery (including Rs. 300 for the previous year)	1,500
Paid for purchases for Refereshment room	4,250
Wages	3,400
Gas and fuel	2,000
Rent, rates and taxes (for the year ended 31st December 1976)	3,000
Amounts due to suppliers	1,100

(*I.I.B. Part I, May 1976*)

Solution:

(*a*) RECEIPTS AND PAYMENTS ACCOUNT OF LEHRI LALA CLUB

for the year ended 31st March, 1976

Receipts	*Details*	*Amount*	*Payments*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Balance b/d		900	By Salaries:		
To Subscriptions:			*From 1.3.1975*		
for 1974-75	-1,000		to 28.2.1976		
for 1975-76	9,000	10,000	@Rs. 200 p.m.		2,400
			By Repairs		600
To Room hiring		500	By Printing & stationery		
To Tennis court		3,000	for 1974-75	300	
To Refreshment room		6,250	for 1975-76	1,200	1,500
			By Purchases for Refreshment room		4,250
			By Wages		3,400
			By Gas & fuel		2,000
			By Rent, rates & taxes for the year ended 31-12-1976		3,000
			By Balance c/d		3,500
		20,650			20,650

(b) INCOME AND EXPENDITURE ACCOUNT OF LEHRI LALA CLUB

for the year ended 31st March, 1976

Expenditure	*Details*	*Amount*	*Income*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Salaries: Paid	2,400		By Subscriptions: Received	10,000	
Less: Paid for March 1975	200		*Less*: Received for 1974-75	1,000	
	2,200			9,000	
Add: Outstanding for Mach 1976	200	2,400	*Add*: Due for 1975-76 not yet received	1,500	10,500
To Repairs		600	By Room hiring		500
			By Tennis court		3,000
To Printing & stationery Paid	1,500		By Refreshment room: Receipts	6,250	
Less: Paid for 1974-75	300	1,200	*Less*: Expenses: (i) Payment for purchases 4,250		
To Wages		3,400	(ii) Amount due to suppliers 1,100	5,350	900
To Gas & fuel		2,000			
To Rent, rates & taxes paid	3,000				
Less: Pre-paid for 9 months from 1-4-1976 to 31-12-1976 @ Rs. 250 p.m.	2,250	750			
To Surplus—excess of income over expenditure		4,550			
		14,900			14,900

Working Note: The information given above will be presented in the Balance Sheets as shown on the next page:

BALANCE SHEET OF LEHRI LALA CLUB
as on 31st March, 1976

Liabilities		Amount	Assets	Amount
		Rs.		Rs.
Outstanding salaries		200	Cash on hand & at Bank	3,500
Amount due to suppliers		1,100	Subscriptions outstanding	1,500
Capital Fund			Rent, rates & taxes paid in advance up to 31-12-76	2,250
Add: Surplus for the year ended 31-3-1976	4,550			

BALANCE SHEET OF LEHRI LALA CLUB
as on 31st March, 1975

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Outstanding salaries	200	Cash on hand & at Bank	900
Outstanding for printing & stationery	300	Subscriptions outstanding	1,000

Problem 4. From the following particulars, which relate to a Musical Society, prepare an Income and Expenditure Account and a Balance Sheet as at 31st December 1970:

BALANCE SHEET
as on 31st December, 1969

Liabilities	Amount Rs.	Assets	Amount Rs.
Outstanding Creditors	425	Cash at Bank	3,000
Capital Fund:		Govt. Securities	10,000
Excess of income over		Accrued interest	125
expenditure	15,575	Outstanding subscriptions	400
		Library Books	1,000
		Furniture & Fittings	1,475
	16,000		16,000

The transactions for the year were:

Receipts: Subscriptions Rs. 2,500; Proceeds received from Entertainment and lectures Rs. 1000; Interest on securities Rs. 475; Entrance fees received Rs. 500; Sale proceeds of old chair Rs. 75.

INCOME AND EXPENDITURE ACCOUNT OF LEHRI LALA CLUB

for the year ended 31st March, 1976

Expenditure	Details	Amount	Income	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Salaries: Paid	2,400		By Subscriptions: Received	10,000	
Less: Paid for March 1975	200		*Less:* Received for 1974-75	1,000	
	2,200			9,000	
Add: Outstanding for Mach 1976	200	2,400	*Add:* Due for 1975-76 not yet received	1,500	10,500
To Repairs		600	By Room hiring		500
			By Tennis court		3,000
To Printing & stationery Paid	1,500		By Refreshment room: Receipts	6,250	
Less: Paid for 1974-75	300	1,200	*Less:* Expenses: (*i*) Payment for purchases 4,250		
To Wages		3,400	(*ii*) Amount due to suppliers 1,100	5,350	900
... & fuel		2,000			
... rates & ...id	3,000				
...re-paid for ...onths ...om 1-4-1976 to 31-12-1976 @ Rs. 250 p.m.	2,250	750			
To Surplus—excess of income over expenditure		4,550			
		14,900			14,900

Working Note: The information given above will be presented in the Balance Sheets as shown on the next page:

BALANCE SHEET OF LEHRI LALA CLUB
as on 31st March, 1976

Liabilities		Amount	Assets	Amount
		Rs.		Rs.
Outstanding salaries		200	Cash on hand & at Bank	3,500
Amount due to suppliers		1,100	Subscriptions outstanding	1,500
Capital Fund	[illegible]		Rent, rates & taxes paid in advance up to 31-12-76	2,250
Add Surplus for the year ended 31-3-1976	4,550			
		7250		7250

BALANCE SHEET OF LEHRI LALA CLUB
as on 31st March, 1975—

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Outstanding salaries	200	Cash on hand & at Bank	900
Outstanding for printing & stationery	300	Subscriptions outstanding	1,000

Problem 4. From the following particulars, which relate to a Musical Society, prepare an Income and Expenditure Account and a Balance Sheet as at 31st December 1970:

BALANCE SHEET
as on 31st December, 1969

Liabilities	Amount Rs.	Assets	Amount Rs.
Outstanding Creditors	425	Cash at Bank	3,000
Capital Fund:		Govt. Securities	10,000
Excess of income over		Accrued interest	125
expenditure	15,575	Outstanding subscriptions	400
		Library Books	1,000
		Furniture & Fittings	1,475
	16,000		16,000

The transactions for the year were:

Receipts: Subscriptions Rs. 2,500; Proceeds received from Entertainment and lectures Rs. 1000; Interest on securities Rs. 475; [illegible] fees received Rs. 500; Sale proceeds of old chair Rs. 75.

Payments: Rent Rs. 6000; Printing Rs. 150; Advertising Rs. 200; Sundries Rs. 55; Govt. Securities Rs. 2,500; Furniture Rs. 400; Library books Rs. 300; Cost of entertainment Rs 750.

The following were outstandings as on 31st December, 1970:

Printing Rs. 75; Rent Rs. 100; Interest on Securities Rs. 150; and Subscriptions Rs. 325.

Cash on hand as on 31st December, 1970 was Rs. 2,170.

(I.I.B. Part I, May 1971)

Solution:

INCOME AND EXPENDITURE ACCOUNT
OF MUSICAL SOCIETY
for the year ended 31st December, 1970

Expenditure	*Details*	*Amount*	*Income*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Rent:			By Subscriptions:		
Paid in 1970	600		Received in 1970	2,500	
Add: Outstanding for 1970	100	700	*Less*: Received for 1969	400	
				2,100	
To Printing:					
Paid in 1970	150		*Add*: Outstanding for 1970	325	2,425
Add: Outstanding for 1970	75	225			
To Advertisement		200	By Proceeds received from entertainment and lectures		1,000
To Sundries		55			
To Cost of entertainment		750	By Interest on Securities		
To Surplus being excess of income over expenditure			Received in 1970	475	
			Less: Received for 1969	125	
		2,570		350	
			Add: Outstanding for 1970	150	500
			By Entrance fees		500
			By Sale proceeds of old chair		75
		4,500			4,500

BALANCE SHEET OF MUSICAL SOCIETY
as on 31st December, 1970

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Outstanding			Cash at Bank		2,170
Creditors for:			Govt. Securities:	10,000	
Rent	100		*Add*: Purchased in 1970	2,500	12,500
Printing	75	175	Accrued Intererst		150
Capital Fund: brought forward	15,575		Outstanding Subscriptions		325
Add: Surplus for the year 1970	2,570	18,145	Library Books:	1,000	
			Add: Purchased in 1970	300	1,300
			Furniture & Fittings	1,475	
			Add: Purchased in 1970	400	1,875
		18,320			18,320

Working Notes:

(*a*) The Receipts and Payments account of the society will be prepared as shown hereunder :

RECEIPTS AND PAYMENTS ACCOUNT OF MUSICAL SOCIETY
for the year ended 31st December, 1970

Receipts	*Details*	*Amount*	*Payments*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Balance b/d		3,000	By Rent		600
To Subscriptions:			By Printing		150
1969	400		By Advertising		200
1970	2,100	2,500	By Sundries		55
			By Govt. Securities		2,500
To Entertainment & Lectures		1,000	By Furniture		400
			By Library Books		300
		6,500			4,205

Total b/fd		6,500	Total b/fd	4,205
To Interest on Securities:			By Cost of entertainment	750
1969	125		By Creditors for 1969	425
1970	350	475	By Balance c/d	2,170
The Sale of old chair		75		
To Entrance fees		500		
		7,550		7,550

(b) It has been assumed that out of subscriptions for Rs. 2,500, received during the year 1970, Rs. 400 related to the outstanding subscriptions for 1969.

(c) Interest on securities Rs. 475 received is assumed to be inclusive of accrued interest for 1969 Rs. 125.

(d) Entrance fees has been treated as a revenue income.

(e) Book value of old chair is assumed to be nil and the sale proceeds have been taken as income.

(f) It is assumed that the outstanding creditors of 1969 have been paid during 1970.

Problem 5. The following is the Receipts and Payments Account of a Cultural Society for the year ended 31st December 1977.

Receipts	*Amount*	*Payments*	*Amount*
	Rs.		Rs.
Cash on hand, 1st Jan.	1,500	Bank Overdraft, 1st Jan.	3,100
Subscriptions:		Investment in Securities	3,000
1976	200	Furniture	1,450
1977	16,200	Salary	6,200
1978	250	Printing & Stationery	890
Entertainment proceeds	2,000		
Entrance Fees	670	Entertainment expenses	1,710
Interest on Securities	480	Sundry expenses	1,420
Sale of old chairs (book value-nil)	120	Balance on 31.12.77	
		Cash	550
		Bank	3,100
	21,420		21,420

You are required to prepare the Income and Expenditure Account of the Cultural Society for the year ended 31st December 1977 and Balance Sheet as on that date after considering the following :

(*i*) The Society has 1,800 members each paying annual fees of Rs. 10. Subscription amounting to Rs. 90 were still in arrears for the year 1976.

(*ii*) Stock of stationery on 31st December 1976 was Rs. 125 and on 31st December 1977 was Rs. 87.

(*iii*) Entrance fees are to be capitalised.

(*iv*) Salary of Rs. 550 for December 1977 is outstanding. Expenses accrued on 31st December 1976 were Rs. 132. The Society had paid Rs. 500 in 1976 for telephone charges out of which Rs. 125 related to the year 1977.

(*v*) On 31st December, 1976 premises stood in the books at Rs. 24,500 and Investments at Rs. 6,500.

(*vi*) Depreciate fixed assets by 5%.

(*I.I.B. Part I, August 1978*)

Solution:

INCOME AND EXPENDITURE ACCOUNT
OF THE CULTURAL SOCIETY

for the year ended 31st December, 1977

Expenditure	*Details*	*Amount*	*Income*	*Details*	*Amount*
	Rs	Rs.		Rs.	Rs.
To Salary: paid	6,200		By Subscriptions: Received for 1977	16,200	
Add. Outstanding for Dec. 1977	550	6,750	*Add.* Outstanding (*Balancing figure*)	1,800	18,000
To Printing and Stationery consumed:			By Income from Entertainments: Proceeds	2,000	
Opening stock	125		*Less:* Expenses	1,710	290
Add: Purchased cash	890				
	1,015		By Interest on Securities		480
Less: Closing stock	87	928			
To Sundry expenses	1,420		By Sale of old chair (*book value nil*)		120
Less: Paid for the Outstandings of 1976	132	1,288			
To Telephone charges paid in 1976 for 1977		125			
Total c/fd		9,091	Total c/fd		18,890

Total b/fd		9,091	Total b/fd	18,890
To Depreciation on fixed assets @5%:				
On Premises	1,225			
On Furniture	73	1,298		
To Surplus—Excess of income over expenditure transferred to Capital Fund		8,501		
		18,890		18,890

BALANCE SHEET OF THE CULTURAL SOCIETY

as on 31st December, 1977

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Subscriptions received in advance for 1978		250	Cash on hand		550
			Cash at Bank		3,100
			Subscriptions outstanding for 1976	90	
Salary outstanding for December, 1977		550	for 1977	1,800	1,890
Capital Fund:	29,808		Stock of Stationery		87
Add: Entrance fees (capitalised)	670		Premises:	24,500	
	30,478		*Less*: Depreciation @ 5%	1,225	23,275
Add: Surplus for the year 1977 transferred from Income and Expenditure A/c	8,501	38,979	Investments	6,500	
			Add: Purchased during 1977	3,000	9,500
			Furniture: Purchased	1,450	
			Less: Depreciation @ 5% (taken to the nearest rupee)	73	1,377
		39,779			39,779

Working Notes :

(1) The Cultural Society has 1,800 members each paying annual subscription of Rs. 10. Therefore, the total subscription for the year will be Rs. 18,000 (Rs 10×1,800). The society has received only Rs. 16,200 towards subscriptions for 1977, hence a sum of Rs. 1,800 (Rs. 18,000—Rs. 16,200) is outstanding for 1977.

(2) Calculation of Capital Fund as on 1st January 1977.

BALANCE SHEET OF THE CULTURAL SOCIETY

as on 1st January 1977

Liabilities	*Amount*	*Assests*	*Amount*
	Rs.		Rs.
Bank overdraft	3,100	Cash on hand	1,500
Expenses accured	132	Subscriptions outstanding	290
Capital Fund (*Balancing figure*)	29,808	Stock of Stationery	125
		Telephone charges paid in advance for 1977	125
		Premises	24,500
		Investments	6,500
	33,040		33,040

(3) Subscriptions received in 1977 for 1976 amounted to Rs. 200, but subscriptions amounting to Rs. 90 were still in arrears for the year 1976 Thus, the total amount of subscriptions outstanding as on 31.12.1976 were Rs. 290 (Rs. 200+Rs. 90).

Problem 6. The following is the Receipts and Payments Account of Free Medical Aid Society for the year ended 31st March, 1977 :

RECEIPTS AND PAYMENTS ACCOUNT

for the year ended 31st March, 1977

Receipts	*Amount*	*Payments*	*Amount*
	Rs.		Rs.
To Cash in hand 1st April, 1976	7,000	By Payments for medicines	30,000
		By Honorarium to doctors	10,000
To Subscriptions	50,000	By Salaries	27,500
To Donations	14,500	By Sundry expenses	500
To Interest on investments at 7% for the year	7,000	By Equipment purchased	15,000
		By Charity show exgenses	1,000
To Charity show proceeds	10,000	By Cash in hand 31st March, 1977)	4,500
	88,500		88,500

Additional information :

		On 1st April, 1976	On 31st March, 1977
		Rs.	Rs.
(i)	Subscription due	500	1,000
(ii)	Subscription received in advance	1,000	500
(iii)	Stock of medicines	10,000	15,000
(iv)	Amounts due to medicines suppliers	8,000	12,000
(v)	Value of Equipments	21,000	30,000
(vi)	Value of Buildings	40,000	38,000

You are required to prepare :

(a) Income and Expenditure Account for the year ended 31st March 1977, and

(b) Balance Sheet as on that date.

Show all your workings.

(I.I.B. Part I, May 1977)

Solution:

(a)

INCOME & EXPENDITURE ACCOUNT
OF FREE MEDICAL AID SOCIETY
for the year ended 31st March, 1977

Expenditure		*Details*	*Amount*	*Income*	*Details*	*Amount*
		Rs.	Rs.		Rs.	Rs.
To Medicines consumed :				By Subscriptions :		
Opening stock		10,000		Received	50,000	
Add: Purchases: Payments	30,000			*Less*: For 1975-76	500	
Less: for 1975-76	8,000				49,500	
	22,000			*Add*: Outstanding for 1976-77	1,000	
Add: Outstandings for 1976-77	12,000	34,000			50,500	
		44,000		*Add*: Received in 1975-76 for 1976-77	1,000	
Less: Closing stock		15,000	29,000		51,500	
				Less: Received for 1977-78	500	51,000
Total c/f			29,000	Total c/f		51,000

		Rs.			Rs.
Total b/f		29,000	Total b/f		51,000
To Honorarium to doctors		10,000	By Donations.		14,500
To Salaries		27,500	By Interest on Investments		7,000
To Sundry expenses		500	By Income from Charity show:		
To Depreciation on:			Proceeds	10,000	
Equipments	6,000		*Less*: Expenses	1,000	9,000
Buildings	2,000	8,000			
To Surplus—excess of income over expenditure		6,500			
		81,500			81,500

(*b*) BALANCE SHEET OF FREE MEDICAL AID SOCIETY

as on 31st March, 1977

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Capital Fund:	1,69,500		Buildings:	40,000	
Add: Surplus for 1976-77	6,500	1,76,000	*Less*: Depreciation (*Balancing figure*)	2,000	38,000
Subscription received for 1977-78		500	Equipments:	21,000	
Creditors for medicines		12,000	*Add*: Purchases	15,000	
				36,000	
			Less: Depreciation (*Balancing figure*)	6,000	30,000
			Stock of medicines:		
			Opening stock	10,000	
			Add: Purchases	34,000	
				44,000	
			Less: Consumed	29,000	15,000
			Subscriptions outstanding for 1976-77		1,000
			Investments		1,00,000
			Cash on hand		4,500
		1,88,500			1,[illegible]00

Working Notes :

(1) Calculation of Capital Fund as on 1st April 1976 :

BALANCE SHEET OF FREE MEDICAL AID SOCIETY
as on 1st April, 1976

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Subscriptions received for 1976-77	1,000	Buildings	40,000
Creditors for medicines	8,000	Equipments	21,000
Capital Fund (*Balancing figure*)	1,69,500	Stock of Medicines	10,000
		Subscriptions outstanding for 1975-76	500
		Investments	1,00,000
		Cash on hand	7,000
	1,78,500		1,78,500

(2) Calculation of Investments:

Interest received on investments at 7% for one year is Rs. 7,000.

Therefore, value of investments as on 1-4-1976 will be:

$$\text{Rs. } \frac{7{,}000 \times 100}{7} = \text{Rs. } 1{,}00{,}000$$

Problem 7. From the following (1) Balance Sheet as on 31st December 1970, (2) Receipts and Payments account for the year ended 31st December 1971, and (3) The other particulars given prepare Income and Expenditure Account for the year 1971 and a Balance Sheet as at 31st December 1971 of Western Sports Club:

(1) BALANCE SHEET
as at 31st December 1970

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
Outstanding creditors—			Cash at Bank	4,000
for expenses	700		Cash in hand	1,000
for sports materials	4,250	4,950	Advance payment for food	150
			Due from members for subscriptions	1,500
Subscripition in advance		280	Investments	26,000
Club fund		70,000	Building	30,000
			Furniture	12,000
			Stock of food	450
			Stock of sports material	130
		75,230		75,230

(2). RECEIPTS AND PAYMENTS ACCOUNT
for the year ended 31st December 1971

Receipts	Details	Amount	Payments	Amount
	Rs.	Rs.		Rs.
To Balance			By Establishment (including last year's outstanding)	3,500
Cash	1,000		By Electric Installation	2,000
Bank	4,000	5,000	By Sports materials (including last year's outstanding)	5,000
To Entrance fees (*to be Capitalised*)		1,200	By Food materials	8,300
To Subscription for			By Stationery and Printing	700
1970 ...	1,500		By Cash on hand	1,300
1971 ...	10,000		By Cash at Bank	9,200
1972 ...	1,000	12,500		
To Sales of Entertainment tickets		10,000		
To Sale of Sports Materials		1,300		
		30,000		30,000

(3) Other informations: Rs.

(*a*) Stock as on 31st December 1971—
Food 300
Sports materials 400
(*b*) Members' subscriptions outstanding 900
(*c*) Outstanding creditors—
Sports materials 200
Establishment 400
(*d*) Payments in advance—Sports materials 300

(*I.I B. Part I, October 1972*)

Solution:

INCOME AND EXPENDITURE ACCOUNT
OF WESTERN SPORTS CLUB
for the year ended 31st December, 1971

Expenditure	Details	Amount	Income	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Establishment	3,500		By Subscriptions:		
Less: Outstandings for 1970 paid	700		Received for 1971	10,000	
	2,800		*Add.* Subscriptions received in advance in 1970 for 1971	280	
Add: Outstandings for 1971	400	3,200			
Total c/fd	3,200		Total c/fd		10,280

Total b/fd			3,200	Total b/fd		10,280
To Sports materials consumed:				*Add*: Subscriptions outstanding for 1971	900	11,180
Opening stock		130				
Add: Purchases during 1971: Paid	5,000			By Sale of entertainment tickets		10,000
Less: Outstanding for 1970	4,250			By Sale of sports materials		1,300
	750					
Add: Outstanding for 1971	200					
	950					
Less: Advance payment for 1972	300	650				
		780				
Less: Closing stock		400	380			
To Food Materials consumed:						
Opening stock		450				
Add: Purchased during 1971: Paid	8,300					
Add: Payment in advance made in 1970 for 1971	150	8,450				
		8,900				
Less: Closing stock		300	8,600			
To Stationery and Printing			700			
To Surplus-excess of Income over expenditure			9,600			
			22,480			22,480

BALANCE SHEET OF WESTERN SPORTS CLUB
as on 31st December, 1971

Liabilities	*Details* Rs.	*Amount* Rs.	*Assets*	*Details* Rs.	*Amount* Rs.
Outstanding Creditors:			Cash at Bank		9,200
for establishment expenses	400		Cash on hand		1,300
for sports materials	200	600	Due from members for subscription		900
			Stock of food		300
Prepaid Subscriptions for 1972		1,000	Stock of sports material		400
Club fund:	70,000		Advance payment for sports material		300
Add: Entrance fees (*capitalised*)	1,200		Investments		26,000
	71,200		Building		30,000
Add: Surplus for 1971	9,600	80,800	Furniture and Fixtures:	12,000	
			Add: Electrical installations during the year	2,000	14,000
		82,400			82,400

Problem 8. The following balances are extracted from the books of X, Y Investor as at 31st December 1973:

	Rs.
Sundry Investments	1,55,000
Profit on sale of Investments	15,500
Loss on sale of Investments	23,000
Reserve for Depreciation of Investments (as at Ist January 1973)	24,000
Dividend and Interest received	7,600
Capital as at Ist January 1973	1,59,760
Drawings	8,500
Income tax payable	1,500
Properties	14,000
Rent received	1,600
Properties expenses	230
Rent dues	

Sundry Creditors	500
Deposit Interest received	220
Cash at Bank	4,500
Deposits with Bank	5,00(

The market value of Investments as at 31st December 1973 wa
s. 1,24,000 and the Reserve is to be increased to cover the fu
epreciation.

Prepare a Trial Balance and Income and Expenditure Account f
the year ended 31st December 1973 and a Balance Sheet as at that date.

(*I.I.B. Part I, May 1974*)

Solution:

TRIAL BALANCE OF X, Y INVESTOR
as at 31st December, 1973

Name of the Account	*Debit Balance* Rs.	*Credit Balance* Rs.
Sundry Investments	1,55,000	
Profit on sale of Investments		15,500
Loss on sale of Investments	23,000	
Reserve for Depreciation of Investments (as at 1st January 1973)		24,000
Dividend and Interest received		7,600
Capital as at Ist January 1973		1,59,760
Drawings	8,500	
Income Tax payable		1,500
Properties	14,000	
Rent received		1,60(
Properties expenses	230	
Rent dues	450	
Sundry Creditors		5(
Deposit Interest received		2
Cash at Bank	4,500	
Deposits with Bank	5,000	
	2,10,680	2,10,

IN THE BOOKS OF X, Y INVESTOR:

INCOME AND EXPENDITURE ACCOUNT
for the year ended 31st December, 1973

Expenditure		*Amount*	*Incomes*	*Amount*
		Rs.		Rs.
To Loss on sale of Investments		23,000	By Profit on sale of investments	15,500
To Reserve for Depreciation on Investments:			By Dividend and Interest received	7,600
Total Required (face value Rs. 1,55,000 *minus* market value Rs. 1,24,000)	31,000		By Rent received	1,600
Less: Already provided	24,000		By Deposit Interest received	220
Now provided		7,000	By Deficit—Excess of Expenditure over income transferred to Capital Fund	5,310
To Properties expenses		230		
		30,230		30,230

BALANCE SHEET OF X, Y INVESTOR
as on 31st December, 1973

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
Capital Fund:			Sundry Investments	1,55,000
As on 1-1-1973	1,59,760		Properties	14,000
Less: Deficit transferred from Income and Expenditure Account	5,310		Outstanding expenses: Rent dues	450
	1,54,450		Cash at Bank	4,500
Less: Drawings	8,500	1,45,950	Deposits with Bank	5,000
Reserve for Depreciation on Investments:				
Old Balance	24,000			
Add: Provided during the year	7,000	31,000		
Sundry Creditors		500		
Income Tax payable		1,500		
		1,78,950		1,78,950

Problem 9. The following socalled 'Balance Sheet' is submitted to you by the Secretary of the Mid-Town Bank Employees Club of which you are the President. You find that the moneys of the Club were not kept separate by the Secretary, but presumably mixed up with his own private cash. Prepare accounts—Receipts and Payaments A/c, Income and Expenditure A/c for the year ended 31st December 1978 and Balance Sheet as on 1st January 1978 and as on 31st December 1978 from the following information :—

BALANCE SHEET FOR THE YEAR 1978

Receipts	*Amount*	*Expenditure*	*Amount*
	Rs.		Rs.
Opening balance	750	Rent and taxes	2,040
Arrears of subscription	110	Salary	250
Subscription (Current year)	1,640	Cost of charity show	150
Charity show tickets sold	210	Club day collection expenses	100
Club day collections	140	Owing for charity show tickets	50
Refreshments sold	2,350	Owing for Donations	
Receipts from Games	70	for "Building fund"	70
Donations for "Building fund"	190	Refreshments bought	1,700
		Stock of refreshments	150
		Subscription owing	80
		Cost of furniture	350
		Closing balance	620
	5,560		5,560

(*I.I.B. Part I, November 1979*)

Solution:

Mid-Town Bank Employees Club

RECEIPTS AND PAYMENTS ACCOUNT

for the year ended 31st December, 1978

Receipts	*Details*	*Amount*	*Payments*	*Amount*
	Rs.	Rs.		Rs.
To Opening balance		750	By Rent and taxes	2,040
To Subscriptions:			By Salary	250
for the current year	1,640		By Cost of charity show	150
Add: Received for the previous year	110		By Club day collection expenses	100
			By Refreshments bought	1,700
			By Furniture	350
	1,750		By Closing balance	770
Less: Outstandings	80	1,670		
Total c/f		2,420	Total c/f	5,360

Total b/f		2,420	Total b/f	5,360
To Sale of charity show tickets	210			
Less: Outstandings	50	160		
To Club day collections		140		
To Refreshments sold		2,350		
To Receipts from games		170		
To Donations for "Building fund"	190			
Less: Outstandings	70	120		
		5,360		5,360

Mid-Town Bank Employees Club

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st December 1978

Expenditure	*Amount*	*Income*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Rent & taxes	2,040	*By Subscriptions:*		
To Salary	250	Received for the current year	1,560	
To Surplus—Excess of income over expenditure transferred to capital fund	420	*Add*: Outstandings	80	1,640
		By Charity show:		
		Tickets sold for cash	160	
		Add: Outstanding for charity show tickets	50	
			210	
		Less: Cost of charity show	150	60
		By Club day collections:	140	
		Less: Expenses	100	40
		By Refreshments:		
		Sale proceeds	2,350	
		Add: Stock in hand	150	
			2,500	
		Less: Purchases	1,700	800
		By Games		170
	2,710			2,710

Mid-Town Bank Employees Club
BALANCE SHEET
as on 1st January, 1978

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital fund (*Balancing figure*)	860	Cash in hand	750
		Arrears of subscription	110
	860		860

Mid-Town Bank Employees Club
BALANCE SHEET
as on 31st December, 1978

Liabilities	Details	Amount	Assets	Amount
	Rs.	Rs.		Rs.
Capital fund as on 1-1-1978	860		Cash in hand	770
Add: Surplus—Excess of income over expenditure	420	1,280	Furniture	350
			Subscriptions outstanding	80
			Owing for charity show tickets	50
			Stock of refreshments	150
Donation for "Building fund"		190	Owing for donations for "Building fund"	70
		1,470		1,470

Problem 10. The Balance Sheet of a Public Library showed as follows on 1st April 1980 :—

Liabilities	Amount	Assets	Details	Amount
	Rs.			Rs.
Outstanding Creditors for expenses	700	Cash at Bank		4,000
Creditors on open Accounts	4,300	Sundry Debtors :		
Capital Fund:		For Subscription outstanding	1,000	
Accumulated excess of Income over Expenditure	70,000	For use of Lecture Hall	400	1,400
		Investments in 5% Government loan		6,000
		Library Books		20,000
		Furniture and Fittings		3,500
		Building		40,000
		Prepaid Insurance		100
	75,000			75,000

The cash transactions for the year ending 31st March 1981 were as follows :—

	Rs.		Rs.
To Bank Balance on 1st April 1980	4,000	By payment to creditors on open Accounts	4,300
To Entrance Fees	1,200	By Additions to Library books	1,400
To Subscriptions	12,500	By Electric Lighting and Power	300
To Proceeds from Lectures and Entertainments	4,500	By Municipal taxes	1,100
To Rent received from use of Halls	1,500	By Repairs to Building	800
To Interest on Investments	200	By Insurance	350
To Sale of old Newspapers	450	By Electric Installation expenses	2,000
To Sale of old Furniture	100	By Payment to outstanding Creditors of last year	700
		By Printing and Stationery	500
		By Sundry expenses	250
		By Postage	450
		By Subscription to Periodicals	1,400
		By Cost of Investments bought	3,000
		By Salaries	3,600
		By Balance Bank, 31-3-81	4,300
	24,450		24,450

Insurance was prepaid to the extent of Rs. 75 and subscriptions outstanding amounted to Rs. 1,800. Rs. 250 were owing for use of Lecture Hall and Rs. 300 for Interest on Investments had accrued due. There were creditors outstanding for new steel shelves acquired during the year amounting to Rs. 1,750. There were also owing for salaries Rs. 500 and stationery Rs. 75. Entrance fees are to be capitalised.

You are required to prepare an Income and Expenditure Account and a Balance Sheet for the year ended 31st March 1981, after providing 2% de[illegible] on Building 5% on Electric Installation and Furniture and F [illegible] ation to be calculated [illegible]

(I.I.B. Part I, April 1981)

Solution:

INCOME AND EXPENDITURE ACCOUNT
of.........Public Library
for the year ended 31st March, 1981

Expenditure	Details Rs.	Amount Rs.
To Electric, Lighting and Power		300
To Municipal Taxes		1,100
To Repairs to Building		800
To Insurance	350	
Add: Prepaid on 1-4-1980	100	
	450	
Less: Prepaid for 1981-82	75	375
To Printing & Stationery	500	
Add: Outstanding for 1980-81	75	575
To Sundry expenses		250
To Postage		450
To Subscription to periodicals		1,400
To Salaries	3,600	
: Outstanding for 1980-81	500	4,100
o Depreciation on Building (@ 2% on Rs. 40,000)	800	
On Furniture and ittings (@ 5% Rs. 3,500)	175	
books on	2,000	2,975
		7,875
		20,200

Income	Details Rs.	Amount Rs.
By Subscriptions	12,500	
Add: Outstanding for 1980-81	1,800	
	14,300	
Less: Outstanding on 1-4-1980	1,000	13,300
By Proceeds from lectures and entertainments		4,500
By Rent received from use of halls	1,500	
Add: Outstanding for 1980-81	250	
	1,750	
Less: Outstandings on 1-4-1980	400	1,350
By Interest on Investment	200	
Add: Interest accrued due but not yet received	300	500
By Sale of old newspapers		450
By Profit on sale of Furniture		10
		20,2

Notes. It is assumed that the old furniture sold had the 'nil' written down value and its sale proceeds are treated as profit on sale of old furniture.

No depreciation is provided on Electric Installations, because they were got done during the year, but it is required that depreciation is to be calculated on the opening balances of the Assets.

BALANCE SHEET
OF————PUBLIC LIBRARY
as on 1st April, 1981

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Outstanding Creditors:			Cash at Bank		4,300
For new steel shelves	1,750		Sundry Debitors:		
For salaries	500		For Subscription		
For stationary	75	2,325	out standing	1,800	
			For use of Lecture		
Capital Fund	70,000		Hall	250	2,050
Add. Surplus	7,875				
Add. Entrance fees	1,200	79,075	Investments in 5%		
			Government Loan		6,000
			New Investments		3,000
			Library Books	20,000	
			Less: Depreciation		
			@ 10%	2,000	
				18,000	
			Additions to		
			Library Books	1,400	19,400
			Furniture Fittings	3,500	
			Less: Depreciation		
			@ 5%	175	
				3,325	
			Add New Steel		
			Shelves purchased	1,750	5,075
			Electric Installations		2,000
			Building	40,000	
			Less: Deprecia-		
			tions @ 2%	800	39,200
			Prepaid Insurance		75
			Interest accrued		
			due		300
		81,400			81,400

Problem 11. From the following informaiion relating to Cricket Club, prepare Income and Expenditure A/c for the year ended 31st March 1982, Balanec Sheet as at 31st March 1982 and Balance Sheet as at 31st March 1981.

Receipts	Rs.	*Payments*	Rs.
To Members' Subscription	50,000	By Up keep of Field and Pavillion	20,000
To Members' Admission fee	3,000	By Expenses regarding Tournament	7,000
To Sale of old balls, bats, etc.	500	By Rates and Insurance	2,000
To Hire of Ground	3,000	By Telephones	500
To Subscription for V. J. Tournament	10,000	By Printing and stationery	1,000
To Cash withdrawn from Bank	40,000	By General expenses	500
To Donations	1,00,000	By Honorarium to Secretary	1,700
		By Grass Seeds	300
		By Bats, Balls, etc.	7,000
		By Cash deposited into Bank	1,66,500
	2,06,500		2,06,500

Assets as on 1st April 1981 :—

Cash at Bank	30,000
Stock of balls, bats, etc.	15,000
Printing and Stationery	2,000
Subscription Due	5,000
Liabilities on 1st April 1981	Nil

Donations received and surplus on account of V. J. Tournament should be kept in Reserve for a Permanent Pavillion. Subscriptions due at 31st March 1982 were Rs. 7,500. Write off 50% of Bats, Balls Account and 25% of Printing and Stationery Account.

(I.I.B. Part I, May 1982)

Solution:

BALANCE SHEET OF CRICKET CLUB
as at 31st March, 1981

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Capital fund (*Blancing figure*)	52,000	Cash at Bank	30,000
		Stock of balls bats, etc.	15,000
		Stock of Printing and stationery	2,000
		Subscription due	5,000
	52,000		52,000

INCOME AND EXPENDITURE ACCOUNT OF CRICKET CLUB
for the year ending 31st March 1981

Expenditure	*Amount*	*Income*	*Amount*
	Rs.		Rs.
To Upkeep of field and Pavillions	20,000	By Members subscription (*as per working note No. 3*)	52,500
To Rates and insurance	2,000	By Members Admission fee	3,000
To Telephones	500	By Sale of old balls, bats, etc. (*assumed that their book value is Nil*)	500
To Printing and Stationery written off (*as per working note No. 1*)	750	By Hire of ground	3,000
To General expenses	500		
To Honorarium to Secretary	1,700		
To Grass seeds	3C0		
To Bats, Balls, etc. written off (*as per working note No. 2*)	11,000		
To Surplus transferred to Capital Fund, being excess of income over expenditure	22,250		
	59,000		59,000

BALANCE SHEET OF CRICKET CLUB
as at 31st March, 1982

...abilities	Details Rs.	Amount Rs.	Assets	Amount Rs.
...apital Fund (as per opening Balance Sheet)	52,000		Cash at Bank (as per working note No. 4)	1,56,500
Add: Surplus for the year transferred from Income and Expenditure A/c	22,250	74,250	Stock of Balls, Bats, etc. (as per working note No. 2)	11,000
Reserves for Permanent Pavillion	1,00,000		Stock of Printing and Stationery (as per working note No. 1)	2,250
Donations: *Add:* Subscriptions for V. J. Tournament	10,000		Subscriptions due (as per working note No. 3)	7,500
	1,10,000			
Less: Expenses regarding Tournament	7,000	1,03,000		
		1,77,250		1,77,250

Working Notes:

1. *Printing and Stationery:*

	Rs.
Opening Stock	2,000
Add: Purchases	1,000
	3,000
25% written off by debiting to Income and Expenditure a/c	750
Closing stock shown as an Asset in the Balance Sheet	2,250

2. *Bats, Balls, etc.:*

	Rs.
Opening Stock	15,000
Add: Purchases	7,000
c/f	22,000

b/fd	22,000
50% written off by debiting to Income and Expenditure A/c	11,000
Closing Stock shown as an Asset in the Balance Sheet)	11,000

3. *Member's Subscription:*

Subscriptions Received	50,000
Less: Received for the previous year as shown in the last year's Balance Sheet	5,000
	45,000
Add: Outstanding for the current year, shown as an asset in the Balance Sheet as at 31-3-1982	7,500
Subscriptions for the current period shown in the Income and Expenditure account	52,500

4. *Cash at Bank*

Balance as on 1-4-1981	30,000
Add: Cash deposited into Bank	1,66,500
	1,96,500
Less: Cash withdrawn from Bank	40,000
Balance as on 31-3-1982	1,56,500

Problem 12. From the following particulars for the year 1981 prepare Receipts and Payments account, Income and Expenditure account and Balance Sheet of M/s. Everactive Club. Give full working :—

	Rs.
Cash and Bank Balance 31-12-1980	14,320
Members entrance fees received	2,20,000
Subscription receipts	88,000
Hall hire charges (Credit)	69,000
Receipts from canteen sales	3,14,

	Rs.
Purchase of provision etc. for canteen	3,13,860
Building repairs, painting etc.	28,750
Ground maintenance	45,000
Donations for Club Annexe Building Fund	1,00,000
Advance to Building contractor for construction of Club Annexe	11,000
Payments for Bats, balls etc.	12,000
Lighting and other facilities for members	27,000
Payments to M/s. New furniture Mart	86,000

As per By-laws of the Club, 50% of the entrance fees is to b capitalised.

The Capital fund and the Building fund for Club Annexe at the beginning of the year were Rs. 3,67,000 and Rs. 25,000 respectively.

Depreciate building by 5% and furniture by 10%. *Other information :—*

	31.12.1980	31.12.1981
	Rs.	Rs.
Sundry Creditors:		
—for Bats and Balls	1,820	
—for Furniture	23,000	17,000
Subscription due from members	8,500	13,500
Building (W.D.V.)	2,75,000	
Furniture (W.D.V.)	1,10,000	
Bats and Balls (revalued)	9,000	12,000

(I I.B. Part I, November 1982)

Solution:

RECEIPTS AND PAYMENTS ACCOUNT OF EVERACTIVE CLUB
for the year ended 31.12.1981

Receipts	*Amount*	*Payments*	*Amo*
	Rs.		
Cash and Bank Balances	14,320	Purchase of provision etc. for canteen	3,
Members entrance fees received	2,20,000	Building repairs, painting etc.	
Subscription receipts	88,000	Ground maintenance	
Receipts from Canteen sales	3,14,650	Advance to Building contractor for construction of Club annexe	
Donations for Club Annexe Building fund	1,00,000	Payments for Bats, balls etc.	
Total c/fd	7,36,970	Ttoal c/fd	

Total b/fd	7,36,970	Total b/fd	4,10,610
		Lighting and other facilities for members	27,000
		Payments to New Furniture Mart	86,000
		Cash and Bank Balances (*Balancing figure*)	2,13,360
	7,36,970		7,36,970

INCOME AND EXPENDITURE ACCOUNT OF EVERACTIVE CLUB

for the year ended 31st December, 1981

Expenditure	*Amount*	*Income*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Hall hire charges outstanding	69,000	By Income from Canteen:		
To Building repairs,		Sale proceeds	3,14,650	
painting, etc.	28,750	*Less*: Purchases	3,13,860	790
To Ground maintenance	45,000			
To Lighting and other facilities for members	27,000	By Subscriptions: Received	88,000	
To Depreciation on bats and balls (*Working Note No. 2*)	7,180	*Less*: Received for 1980	8,500	
To Depreciation on furniture (*Working Note No. 3*)	19,000		79,500	
		Add: Outstandings for 1981	13,500	93,000
To Depreciation on Buildings (5% on Rs. 2,75,000)	13,750	By Entrance fees: Received	2,20,000	
		Less: 50% Capitalised	1,10,000	1,10,000
		By Deficit—excess of expenditure over income (*Balancing figure*)		5,890
	2,09,680			2,09,680

BALANCE SHEET OF EVERACTIVE CLUB
as on 31-12-1981

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Capital fund	3,67,000		Cash and Bank balance		2,13,360
Add: 50% Entrance fees	1,10,000		Subscriptions due from members		13,500
	4,77,000		Building	2,75,000	
Less: Deficit for the year	5,890	4,71,110	*Less*: 5% Depreciation	13,750	2,61,250
Building fund for Club Annexe:	25,000		Furniture	1,10,000	
Add: Donations	1,00,000		*Add*: Purchases	80,000	
	1,25,000			1,90,000	
Less: Advance to building contractor for construction of Club Annexe	11,000	1,14,000	*Less*: 10% Depreciation	19,000	1,71,000
Sundry creditors for furniture		17,000	Bats & Balls	9,000	
Hall hire charges outstanding		69,000	*Add*: Purchases	10,180	
				19,180	
			Less: Depreciation	7,180	12,000
		6,71,110			6,71,110

Working Notes :

BALANCE SHEET OF EVERACTIVE CLUB
as on 31-12-1980

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
Capital fund		3,67,000	Cash and Bank Balance	14,320
Building fund for Culb Annexe		25,000	Subscription due from members	8,500
Sundry Creditors:			Building (W.D.V)	2,75,000
for bats & balls	1,820		Furniture (W.D.V)	1,10,000
for furniture	23,000	24,820	Bats and Balls (Revalued)	9,000
		4,16,820		4,16,820

2. Calculation of Depreciation on Bats & Balls etc.

	Rs.	Rs.
Balance as on 31-12-1980		9,000
Add. Purchases during 1931 :		
Payments made	12,000	
Less: Payments to creditors for 1980	1,820	10,180
		19,180
Less: Closing balance as on 31-12-1981		12,000
Depreciation for the year		7,180

3. Calculation of Depreciation on Furniture ;

		Rs.
Balance as on 31-12-1980		1,10,000
Add: Purchases during 1981		
Payments made to New Furniture Mart	Rs. 86,000	
Less: Payments to creditors for 1980	23,000	
	63,000	
Add: Payments due to creditors for 1981	17,000	80,000
		1,19,000

. Depreciation @ 10% on Rs. 1,19,000 amount to Rs. 11,900.

Problem 13. The following Income and Expenditure Account of Fun Club is given for the year ended 31st December 1980 :

Dr.	Rs.	*Cr.*	Rs.
To opening stock of Provisions	10,000	By Subscription	26,000
To Purchases of Provisions	40,000	By Donations	30,000
To Salaries	15,000	By Entrance Fee	8,000
To Printing and Stationery	5,000	By Sales of Provisions	43,000
To General expenses	3,000	By Closing stock of Provisions	5,000
To Depreciation on Equipments	1,000		
To Excess of Income over Expenditure	38,000		
	1,12,000		1,12,000

The following Balance Sheets are given to you :

BALANCE SHEET AS ON

Liabilities	*31st December 1979*	*31st December 1980*	*Assets*	*31st December 1979*	*31st December 1980*
Creditors for provisions	8,000	10,000	Equipment at written down value	10,000	15,000
General fund	47,000	85,000	Stock of Provision	10,000	5,000
			Cash and Bank Balances	30,000	55,000
			Subscription Receivable	5,000	20,000
	55,000	95,000		55,000	95,000

Prepare Receipts and Payments A/c for the year ended 31st December 1980.

(*I.I.B. Part I, November 1981*)

Solution:

RECEIPTS AND PAYMENTS ACCOUNT OF FUN CLUB

for the year ended 31st December 1980

Receipts	*Details*	*Amount*	*Payments*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Balance b/d		30,000	By Payments to Creditors for Provisions:		
Subscriptions received:			Outstanding on 31-12-1979	8,000	
Receivable on 31-12-1979	5,000		*Add*: Purchases of Provisions during the year	40,000	
Receivable for the current year	26,000			48,000	
Total Outstanding	31,000		*Less*: Outstanding on 31-12-1980	10,000	38,000
Less: Outstanding on 31-12-1980	20,000	11,000			
To Donations		30,000	By Salaries		15,000
To Entrance fees		8,000	By Printing and Stationery		5,000
To Sale of Provisions		43,000			
Total c/fd		1,22,000	Total c/fd		58,000

Total b/fd	1,22,000	Total b/fd	58,000
		By General expenses	3,000
		By Equipments purchased	6,000
		By Balance c/d	55,000
	1,22,000		1,22,000

Working Notes:

Calculation of Purchase of Equipments.

	Rs.
Experiments at W.D.V. as on 31-12-1979	10,000
Less: Depreciation provided during 1980	1,000
	9,000
Equipment at W.D.V. as on 31-12-1980	15,000

Therefore, Equipments purchased are of the value of Rs. 6,000 (Rs. 15,000 *Less* Rs. 9,000)

B

CAPITAL AND REVENUE EXPENDITURE

Problem 1. Describe briefly the distinction between Capital Expenditure and Revenue Expenditure.

(I.I.B. Part I, May 1970)

Solution :

To understand the fundamentals of accountancy, it is highly essential for a person maintaining accounts to know the clearcut distinction between Capital and Revenue expenditure. In view of the fact that in preparing the final accounts all revenue items are recorded in the Revenue Account, *i.e.*, the Trading and Profit and Loss account, and all items of capital expenditure are presented in the Balance Sheet of the concern, it follows that this distinction should be rigidly observed. Failure or neglect to discriminate between the two will falsify the whole of the results of accounting. For example, if an expense of a revenue nature is debited to some asset account, it will result in inflating the profits, and *vice-versa*.

Capital Expenditure:

An item of expense that brings into existence an asset of lasting value, which is intended to be continually used in the business for the purpose of earning revenue, is Capital Expenditure. In a general way all amounts spent for acquiring Lands, Buildings, Machinery, Furniture Patents, Vehicles, etc represent Capital Expenditure.

Expenditure which increases the profit earning capacity either by increasing the output or by reducing the cost is also treated as Capital

Expenditure (if its benefit is likely to be available over a number of years).

The cost of any additions to assets is also considered Capital Expenditure so long as it results in increasing their usefulness to the business or their life.

(Capital assets are acquired by a business not for resale but for being employed for the purpose of carrying on business.)

The benefit of such expenditures is not fully consumed in one year, but spread over several years.

Revenue Expenditure:

All expenses incurred for establishment, conduct and administration of the business are coming under this category. Examples are Salaries, Rent, Taxes, Stationery, Postage, Advertising, etc.

Further, all expenses on repairs, replacements and renewals of existing assets, or defending one's title to them are also Revenue Expenditures. Such expenses do not in any way add to the earning capacity of the assets, but serve to maintain them in an efficient working order.

All expenses incurred for improving or adding to the value of stocks by moving them from one place lo another are also included in this category of expenses. Thus, an expense on the purchase of Raw Materials, Freight, Cartage, Insurance, etc., are considered revenue expenditure.

It consists of expenditure incurred in one period of account, the full benefit of which is consumed in that period.

Problem 2. Eastern Industries Ltd., removed their factory to a more suitable premises in West Bombay.

(*a*) A sum of Rs. 9,500 was spent on dismantling, removing and re-installing Plant, Machinery and Fixtures.

(*b*) The removal of Stock from the old Factory to the new cost Rs. 1,000.

(*c*) Plant and Machinery which stood in the books at Rs. 1,50,000 included a machine at a book value of Rs 3,400. This being obsolete was sold off at Rs. 900 and was replaced by a new machine which cost Rs. 4,800.

(*d*) The freight and cartage on the new machine amounted to Rs. 300 and the erection charges Rs. 550.

(*e*) The furniture appeared in the Books at Rs. 15,000. Of these, some portions of the book value of Rs. 3,000 was discarded and sold at Rs. 1,200. New furniture of the value of Rs. 2,400 was acquired.

(*f*) A sum of Rs. 2,200 was spent on painting the new factory.

Please state which items of Expenditure would be charged to capital and which to Revenue.

(*I I B. Part I, February 1966*)

Solution;

(*a*) Rs. 9,500 expended on dismantling, removing and re-installing Plant, Machinery and Fixtures will have to be treated as *revenue expendi-*

ture It may be treated as *deferred revenue expenditure* item and spread over a term of years say 3 to 7 years and a proportionate amount be charged to revenue every year.

(*b*) Rs. 1,000 being the cost of removal of stock from the old factory to the new premises does not add to the value or the profit earning capacity of the stock and as such, it will be treated as a *revenue expenditure.*

(*c*) The difference of Rs. 2,500, between the book value of the machine (Rs. 3,400) and its sale proceeds (Rs. 900), will be charged as *Revenue expenditure*, to be shown as a loss on sale of assets. Rs. 4,800, spent for purchasing a new machine in place of old one will be capitalised, *i e.*, it will be treated as *capital expenditure.*

(*d*) Freight and cartage Rs. 300 and erection charges Rs. 550 on the new machine are *capital expenditures,* as they are in connection with the acquisition of a new asset.

(*e*) Rs. 1,800 the difference between the book value of the furniture discarded (Rs. 3,000) and the amount realised there from (Rs. 1,200) will have to be treated as *Revenue expenditure*, as loss on sale of assets. Rs. 2,400 the cost of new furniture will be treated as *Capital expenditure.*

(*f*) An amount of Rs. 2,200 spent on painting a new factory is *Capital expenditure* and will be added to the cost of new building, because this amount belongs to the new construction.

Problem 3 A firm of builders purchased a plot of free-hold land for the purposes of constructing new offices thereon for its own use. The office building was erected on an area covering one quarter of the site, using the firm's own labour and materials. The remaining land was used by the firm for building houses which were sold to the public in separate lots.

Describe how the cost of the land and buildings erected thereon should be dealt with in the books of the firm.

Solution: *(I.I B. Part I, May 1970)*

In the above cited problem, it is quite evident that the office building was erected on an area covering one-quarter of the site, using the firm's own labour and materials, thus, the total cost incurred for the purchase of plot, payment of wages and of materials purchased will be divided in the ratio of 1 : 3, *i e*, 25% and 75% 25% of the cost will be treated as Capital Expenditure and 75% as Revenue expenditure.

Following journal entries will be passed for the purpose:

JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Free-hold Land A/c	Dr.			
	To Bank A/c				
	(Being the cost paid for purchasing a a plot of free-hold land)				

Dr.
Wages A/c Dr.
Material A/c
To Bank A/c
(Being the amount paid to labourers and the amount incurred for purchase of materials)

Office Building A/c Dr.
To Free-hold Land A/c
To Wages A/c
To Material A/c
(Being ¼th of the costs incurred on purchase of land, payment of wages and purchase of material transferred to office building account)
Note: Office Buildings will be shown as an asset in the Balance Sheet.

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(4) Buildings for Sale A/c Dr.
To Free-hold land
To Wages A/c
To Material A/c
(Being ¾th of the costs incurred on purchase of land, payment of wages and purchase of materials transferred to the Buildings for sale (revenue A/c).

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(5) Bank A/c Dr.
To Buildings for sale A/c
(Being the sale proceeds of the houses sold to the public in separate lots)

Note: If all the houses are sold by the end of the accounting period, any credit balance left in the 'Buildings for Sale Account' will be transferred as profit in the Profit and Loss account and if there is a debit balance in the said account, it will be transferred to the Profit and Loss account as a loss.

If all the houses are not sold by the end of the accounting period, the cost of the unsold houses will be treated as Closing Stock, to be shown once on the credit of Trading Account and then on the Assets side in the Balance Sheet.

5

Bills of Exchange and the Treatment thereof

A

BILLS OF EXCHANGE

Problem 1. *What are the advantages of the use of Negotiable* Instruments like Bills of Exchange, Cheques and Promissory Notes ?

(I I.B. Part I, May 1972)

Give short notes on Bill of Exchange ; Promissory note.

(I.I.B. Part I, May 1969)

Write short notes on D/D ; Promissory notes.

(I.I.B. Part I, November 1970)

Explain briefly from a Bank's view point :

(1) D/D, (2) P/N

(I I.B. Part I, November 1973)

Explain briefly :

(1) P.N. ; (2) Bill of Exchange ; (3) D/D.

(I I.B. Part I, May 1975)

Solution. A seller does not always get cash in immediate payment for goods sold. He is generally ready to grant credit, but wants some written undertaking or agreement from the buyer to pay the amount after a specified period. This written agreement or undertaking takes the form of a Bill of Exchange or Promissory Note. This paper will serve as a legal document to prove that purchaser is the debtor of the seller. If the purchaser refuses to make the payment in future, the seller can go to the court.

A Bill of Exchange, Promissory Note or Cheque is called a Negotiable Instrument. It is a document which, by endorsement and delivery, or by mere delivery, passes the full title of the instrument to the transferee.

There are obvious advantages in using negotiable instruments :

(a) They fix the date of payment—the creditor knows when he will get money and the debtor knows when he will have to pay.

(b) The seller may wait until the period of the instrument is matured and get the payment at that time, or he may encash it by getting the document discounted from a bank, or may transfer it to his own creditor for the purpose of settling his account with him.

(c) They facilitate the prosecution of recovery action in the event of buyer's default.

Bill of Exchange: It is "an instrument in writing, containing an

unconditional order signed by the maker, directing a certain person or to the bearer of the instrument."

(*Indian Negotiable Instrument Act, 1881 Sc. 5*)

There are three parties to a Bill of Exchange :

1. *The Drawer.* He is the creditor (Seller) and draws a bill of exchange on the debtor (Purchaser).

2. *The Drawee or the Acceptor.* He is the person on whom the bill is drawn, *i.e.*, the debtor. A bill drawn by the drawer must be accepted by the drawee, which will be a proof of the willingness of the drawee that he agrees with the contents of the bill.

3. *The payee.* The person to whom the amount of the bill is to be paid. Sometimes, the drawer and the payee can be one party.

Promissory Note: It is an "instrument, in writting (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument."

(*Indian Negotiable Instrument Act, 1881 Sc. 4*)

There are two parties to a Promissory Note :

1. *The Maker.* The person who makes the note and undertakes to pay.

2. *The payee.* The person in whose favour the Note is made.

All Bills and Promissory Notes which are not expressed to be payable on demand, at sight or at presentment, are due for payment on the third day after the day on which it is expressed to be payable. For all 'after date' or 'after sight' bills, these three extra days are known as *Days of grace.*

Cheque: A cheque is a written order drawn by a customer of a bank instructing his banker to pay on demand a specified sum of money o the person named therein or to his order or to the bearer.

In other words, cheque may be defined as "A bill of exchange drawn banker payable on demand."

Demand Draft: This term is used for an instrument drawn by a Bank upon another bank, or upon one of his own branches or on his local or foreign correspondent.

Bank's Demand Drafts are commonly used in making remittances of money from one place to another. These are payable on demand, but are never bearer.

Problem 2. Explain the accounting treatment of a bill of exchange. What entries should be passed when a Bill Receivable is dishonoured by non-payment after it has been dealt with in any one of the following ways:

(1) when it is retained till maturity by the Recipient ;

(2) after it has been discounted with the Bankers ;

(3) after it has been endorsed over to a Creditor ; and

(4) after it has been sent to the Bankers for collection ?

(*I.I.B. Part I, November 1969*)

Solution:

ACCOUNTING TREATMENT OF A BILL OF EXCHANGE

Transactions	*In the Books of the Drawer*		*In the Books of the Drawee*	
	A/c to be debited	*A/c to be credited*	*A/c to be debited*	*A/c to be credited*
When goods are sold	Customer	Sales	Purchases	Supplier
When bill is drawn and accepted	Bills Receivable	Customer	Supplier	Bills Payable
When it is retained till maturity	—	—	—	—
When it is discounted with the Bank	Bank Discount	Bills Receivable	—	—
When it is endorsed to a Creditor	Creditor	Bills Receivable	—	—
When it is sent to the Bank for collection	Bills sent for collection	Bills Receivable	—	—
On Maturity if the Bill is Met				
When it was retained	Cash	Bills Receivable	Bills Payable	Cash or Bank
When it was discounted with the Bank	—	—	Bills Payable	Cash or Bank
When it was endorsed to a Creditor	—	—	Bills Payable	Cash or Bank
When it was sent to the Bank for collection	Bank	Bills sent for collection	Bills Payable	Cash or Bank
On Maturity if the Bill is Dishonoured				
When it was retained till maturity	Acceptor	Bills Receivable	Bills Payable	Drawer
When it was discounted with the Bank	Acceptor	Bank	Bills Payable	Drawer
When it was endorsed to Creditor	Acceptor	Creditor	Bills Payable	Drawer
When it was sent to the Bank for collection	Acceptor	Bills sent for collection	Bills Payable	Drawer
On Dishonour for Payment of noting charges:				
When it was retained till maturity	Acceptor	Cash	Noting Charges	Drawer
When it was discounted with the Bank	Acceptor	Bank	Noting Charges	Drawer
When it was endorsed to a Creditor	Acceptor	Creditor	Noting Charges	Drawer
When it was sent to the Bank for collection	Acceptor	Bank	Noting Charges	Drawer

Transactions	In the Books of the Drawer — A/c to be debited	In the Books of the Drawer — A/c to be credited	In the Books o… — A/c to be debited	In the Books o… — A/c to be cred…
On Renewal of the Bill				
(a) For cancellation of the old Bill	Same entries as passed for the dishonour of a bill, as the case may			
(b) For interest due	Acceptor	Interest	Interest	Drawer
(c) When a new bill is drawn and accepted	Bill Receivable	Acceptor	Drawer	Bills Payable
When Bill is Retired Before Due Date	Cash Rebate or Discount	Bills Receivable	Bills Payable	Cash Rebate or Di
When the Acceptor is Declared Insolvent				
(a) For the dishonour of the old bill and payment of noting charges				
When it was Retained	Acceptor	Bills Receivable Cash (N.C.)*	Bills Payable Noting Charges	Drawer
When it was Discounted	Acceptor	Bank (Including N.C.)*	Bills Payable Noting Charges	Drawer
When it was Endorsed	Acceptor	Creditor (Including N.C.)*	Bills Payable Noting Charges	Drawer
When it was sent for Collection	Acceptor	Bills sent for Collection Bank (N.C.)*	Bills Payable Noting Charges	Drawer
(b) For the partial amount realised from the private estate of the insolvent	Bank Bad debts	Acceptor	Drawer	Bank (Amount paid) Unpaid A/c

*N.C. Represents *Noting Charges*

Problem. 3 Write short note on Accommodation Bill.

(I.I.B. Part I, November 1970)

Solution. Sometimes bills are drawn and accepted to help a friend who is temporarily in need of money. This is done by means of drawing, accepting and discounting accommodation bills.

"An Accommodation Bill is a bill of exchange for which no consideration is given by the drawer to the acceptor, but which has been drawn and accepted by the parties concerned for their mutual accommodation with a view to raise money by negotiating it."

After acceptance, such a bill of exchange is discounted at the bank—the money so realised is utilised by the friend in need of money (drawer) for the period of the bill and he (drawer) makes the payment of the bill to the acceptor before maturity to enable him to meet the bill on the due date.

Sometimes the cash proceeds of the bill discounted from the bank are utilised by both the parties. After getting the accepted bill discounted from the [illegible] the drawe[illegible] Before th[illegible] drawee to enable him to meet the bill.

In other cases, the two persons in need of money draw bills on each other for equal amounts. After acceptance, they get the bills discounted with their bankers. Each of them keeps with him the cash proceeds of the bill discounted by him and also bears the discount charges of the bill. Each of them meets his own acceptance on the due date.

The accounting treatment for an accommodation bill is the same as for an ordinary trade bill. However, there are certain additional entries in it for remittances to be made by the drawer to the drawee and *vice-versa.*

Problem 4. B owes C a sum of Rs. 600. On 1st January, 1966 he gives a Promissory Note for the amount for 3 months to C who gets it discounted with his bankers for Rs 590. On the due date the bill is dishonoured, the bank paying Rs. 5 as Noting Charges. B then pays Rs. 200 in cash and accepts a bill of exchange drawn on him for the balance together with Rs. 10 as interest. The bill is for 2 month and on due date it is again dishonoured, C paying Rs. 5 as Noting Charges.

Pass Journal Entries in the books of C.

(I.I.B. Part I, November 1967)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF C

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1966				Rs.	Rs.
Jan. 1	Bills Receivable A/c	Dr.		600	
	To B				600
	(Being a Promissory Note for three months maturity received from B on account)				
Jan. 1	Bank A/c	Dr.		590	
	Discount A/c	Dr.		10	
	To Bills Receivable A/c				600
	(Being the Promissory Note duly signed by B got discounted from the Bank)				
April 4	B	Dr.		605	
	To Bank A/c				605
	(Being the discounted bill dishonoured and the noting charges of Rs. 5 paid by the Bank)				
April 4	B	Dr.		10	
	To Interest A/c				10
	(Being interest charged on the unpaid amount for a period of 2 months)				
April 4	Cash A/c	Dr.		200	
	Bills Receivable A/c	Dr.		415	
	To B				615
	(Being the receipt of Rs. 200 in cash and the balance in the shape of a fresh bill of exchange for a period of 2 months duly accepted by B)				
Jun. 7	B	Dr.		420	
	To Bills Receivable A/c				415
	To Cash A/c				5
	(Being the bill dishonoured on the due date and Rs. 5 paid towards noting charges)				

Problem 5. Deepal owed Sheetal Rs. 70,000 for which she accepted a Bill drawn on her by Sheetal payable after 3 months from 1st April 1982.

On the 4th April, the Bill was discounted by the Drawer with her bank for 95% value. The Bill was not met on the due date and the Bank, therefore, debited the same to the Drawer's account with Rs. 10 incidental charges and Rs. 40 overdue interest, on the 10th July. The drawee settled the Bill value together with costs on 11th July.

Pass Journal entries, with full narration, in the books of Deepal and Sheetal, for the above transactions.

(I.I.B. Part I, November 1982)

Solution:

(*i*) JOUNAL ENTRIES IN THE BOOKS OF SHEETAL

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1982				Rs.	Rs.
April 1	Bill Receivable A/c	Dr.		70,000	
	To Deepal				70,000
	(Being the amount owed by Deepal received in the form of a Bill drawn on her payable after 3 months—due on 4-7-1982)				
April 4	Bank A/c	Dr.		66,500	
	Discount A/c	Dr.		3,500	
	To Bill Receivable A/c				70,000
	(Being the bill got discounted from Bank at a discount of 5%)				
July 10	Deepal	Dr.		70,050	
	To Bank A/c				70,050
	(Being the bill accepted by Deepal dishonoured on due date and the bank charged Rs. 10 towards incidental charges and Rs. 40 as overdue interest)				
July 11	Bank A/c	Dr.		70,050	
	To Deepal				70,050
	(Being the amount due from Deepal settled by her)				

(ii) JOURNAL ENTRIES IN THE BOOKS OF DEEPAL

Date	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
1982 April 1	Sheetal	Dr.		70,000	
	To Bill Payable A/c				70,000
	(Being the amount owed to Sheetal settled by accepting a bill drawn by her for 3 months due on 4-7-1982)				
July 4	Bill Payable A/c	Dr.		70,000	
	To Sheetal				70,000
	(Being the bill accepted in favour of Sheetal not met on due date)				
July 10	Incidental charges A/c	Dr.		10	
	Interest A/c	Dr.		40	
	To Sheetal				50
	(Being incidental charges and overdue interest paid by Sheetal on account of non-payment of the bill)				
Jully 11	Sheetal	Dr.		70,050	
	To Bank A/c				70,050
	(Being amount due to Sheetal settled)				

Problem 6. On 1st April 1980, Vijay draws a bill for Rs. 6,000 on Dev for a period of four months. The bill is duly accepted by Dev. On 5th April, Vijay endorses the bill in favour of Chetan. However, on 25th July, Dev approaches Vijay and requests that the bill be renewed for a further period of four months at 10% interest per annum. Vijay agrees and paid the necessary money to Chetan on 4th June. The bill was duly accepted and paid by Dev. Pass the necessary Journal entries, with full narration, to record the above in the books of Vijay.

(*I.I.B. Part I, April 1981*)

Solution :

JOURNAL ENTRIES IN THE BOOKS OF VIJAY

Date	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
1980 April 1	Bills Receivable A/c	Dr.		6,000	
	To Dev				6,000
	(Being bill drawn on and accepted by Dev for a period of 4 month due on 4-8-1980)				

1980				
April 5	Chetan To Bills Receivable A/c (Being bill endorsed to Chetan)	Dr.	6,000	6,000
August 4	Dev To Chetan (Being bill dishonoured on the due date by Dev with a request for its renewal and as such received back from Chetan)	Dr.	6,000	6,000
August 4	Chetan To Bank A/c (Being payment made to Chetan against bill already endorsed to him on 5-4-1980, received back from him on 4-8-1980)	Dr.	6,000	6,000
August 4	Dev To Interest A/c (Being interest receivable from Dev @ 10% per annum for a period of 4 months on Rs. 6,000)	Dr.	200	200
August 4	Bills Receivable A/c To Dev (Being a new bill drawn for the original amount plus interest thereon and accepted by Dev for a period of 4 months, due on 7-12-1980)	Dr.	6,200	6,200
Dec. 7	Bank A/c To Bills Receivable A/c (Being amount paid by Dev in payment of the bill accepted by him)	Dr.	6,200	6,200

Problem 7. On 1st March, B buys goods from C value Rs. 9,000. Instead of paying cash, he agrees to give "C" a Bill of Exchange at four months, the amount of the bill to include interest at 6% p.a. On the due date B is only able to find Rs. 7,390 in cash, and he arranges with C for the retirement of the bill in consideration of this payment and a substituted bill at four months for the balance, plus interest at 6% per annum.

Pass journal entries in the books of B.

(*Ignore paise.*) (*I.I.B. Part I, May 1969*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF B

Date	Particulars		L.F.	Debit Amount	Credit Amount
19...				Rs.	Rs.
Mar. 1	Purchases A/c	Dr.		9,000	
	To C				9,000
	(Being goods purchased on credit from C vide his Invoice No......)				
Mar. 1	C	Dr.		9,000	
	Interest A/c	Dr.		180	
	To Bills Payable A/c				9,180
	(Being a Bill of Exchange duly accepted given to C in payment of goods purchased with interest for 4 months @ 6% p.a., calculted as under: $\frac{9{,}000\times6\times4}{100\times12}$=Rs. 180)				
July 4	Bills Payable A/c	Dr.		9,180	
	To C				9,180
	(Being the bill accepted not honoured on the due date due to non-availability of funds)				
uly 4	C	Dr.		7,390	
	To Cash A/c				7,390
	(Being the available amount of cash paid to C on account				
July 4	C	Dr.		1,790	
	Interest A/c	Dr.		36	
	To Bills Payable A/c				1,826
	(Being a new bill accepted for the balance due plus interest @ 6% p.a. for 4 months. The interest is calculated as under: $\frac{1{,}790\times6\times4}{100\times12}$=Rs. 35·80, taken to the nearest rupee as Rs. 36.)				

Problem 8. On Ist January, 1977 Julie supplied goods to Vikram of the value of Rs. 9,000 and settled the account by means of three bills of Rs. 3,000 each due after two, three and four months respectively.

A week later Julie discounted the first bill at a discount of Rs. 60. The other two bills were held till maturity.

The first two bills were duly met on maturity. On the maturity of the third bill, however, Vikram arranged to retire the bill paying Rs. 1,000 [illegible] four months to cover the balance [illegible]. Juile discounted the bill for [illegible]

Pass the necessary Journal Entries in the books of Julie and Vikram. (*Narration to entries may not be given*)

(*I.I.B. Part I, August 1978*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF JULIE

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1977				Rs.	Rs.
Jan. 1	Vikram.	Dr.		9,000	
	To Sales A/c				9,000
	(Being goods supplied to him vide Invoice No......of date......)				
Jan. 1	Bills Receivable (No. 1) A/c	Dr.		3,000	
	Bills Receivable (No. 2) A/c	Dr.		3,000	
	Bills Receivable (No. 3) A/c	Dr.		3,000	
	To Vikram				9,000
	(Being three bills of equal amount drawn on him in settlement of the payment for sales, which were duly accepted as under: B/R No. 1 for a period of two months due on 4th March, 1977; B/R No. 2 for a period of three months due on 4th April, 1977 and B/R No. 3 for a period of 4 months due on 4th May, 1977)				
Jan. 8	Bank A/c	Dr.		2,940	
	Discount A/c	Dr.		60	
	To Bills Receivable (No. 1) A/c				3,000
	(Being B/R No. 1 got discounted from the bank on date)				

1977				
April 4	Cash A/c Dr. To Bills Receivable (No. 2) A/c (Being B/R No. 2 met by Vikram on the due date)		3,000	3,000
May 4	Vikram Dr. To Bills Receivable (No. 3) A/c (Being the cancellation of B/R No. 3 for its renewal)		3,000	3,000
May 4	Cash A/c Dr. To Vikram (Being amount received in cash on account)		1,000	1,000
May 4	Vikram Dr. To Interest A/c (Being interest charged from Vikram on renewal of a bill on Rs. 2,000 for 4 months @ 12% p.a.)		80	80
May 4	Bills Receivable (No. 4) A/c Dr. To Vikram (Being a new bill accepted by him for a period of 4 months due on 7th September, 1977)		2,080	2,080
May 4	Bank A/c Dr. Discount A/c Dr. To Bills Receivable (No. 4) A/c (Being B/R No. 4 got discounted from the bank)		2,000 80	2,080

JOURNAL ENTRIES IN THE BOOKS OF VIKRAM

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1977			Rs.	Rs.
Jan. 1	Purchases A/c Dr. To Julie (Being good purchased on credit)		9,000	9,000

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
1977				
Jan. 1	Julie	Dr.	9,000	
	To Bills Payable (No. 1) A/c			3,000
	To Bills Payable (No. 2) A/c			3,000
	To Bills Payable (No. 3) A/c			3,000
	(Being three bill of equal amount accepted—B/P No. 1 for two months due on 4-3-1977, B/P No. 2 for three months due on 4-4-1977 and B/P No. 3 for four months due on 4-5-1977)			
Mar. 4.	Bills Payable (No. 1) A/c	Dr.	3,000	
	To Bank A/c			3,000
	(Being B/P No. 1 met on the due date)			
April 4	Bills Payable (No. 2) A/c	Dr.	3,000	
	To Cash A/c			3,000
	(Being B/P No. 2 met on the due date)			
May 4	Bills Payable (No. 3) A/c	Dr.	3,000	
	To Julie			3,000
	(Being cancellalion of B/P No. 3 for its renewal)			
May 4	Julie	Dr.	1,000	
	To Cash A/c			1,000
	(Being part payment of the cancelled bill made in cash)			
May 4	Interest A/c	Dr.	80	
	To Julie			80
	(Being interest payable to Julie on renewal of the bill for the balance amount of Rs. 2,000 for 4 months @ 12% p.a.)			
May 4	Julie	Dr.	2,080	
	To Bills Payable (No. 4) A/c			2,080
	[illegible] for the [illegible] period [illegible]			
Sept. 7	Bills payable (No. 4) A/c	Dr.	2,080	
	To Bank A/c			2,080
	(Being B/P No. 4 met on maturity)			

Problem 9. On 1st January 1979, Bimal drew on Chetan three Bills of Exchange in full sattlement of claims; the first for Rs. 14,000 at one month, the second for Rs. 16,000 at two months and the third for Rs. 18,000 at three months. The bills were duly accepted by Chetan.

The first bill was endorsed by Bimal to his creditor Tarun on 3rd January 1979, the second Bill was discounted on 15th January 1979 for Rs. 15,900 and the third bill was sent to bank for collection on 4th February 1979. All the bills were duly met on maturity except the second Bill which was dishonoured, noting charges being Rs. 240. Bimal charged Chetan Rs. 300 for interest and drew on him a fourth bill for two months for the amount due. The fourth bill was duly met on maturity.

Pass Journal entries (*including narration*) in the books of Bimal.

(I.I.B. Part I, November 1979)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF BIMAL

Date	*Particulars*		*L. F.*	*Debit Amount*	*Credit Amount*
1979				Rs.	Rs.
Jan. 1	Bills Receivable (No. 1) A/c	Dr.		14,000	
	Bills Receivable (No. 2) A/c	Dr.		16,000	
	Bills Receivable (No. 3) A/c	Dr.		18,000	
	To Chetan				48,000
	(Being the amount owed by Chetan received in the form of three acceptances—B/R No. 1 for Rs. 14,000 for one month due on 4th February, B/R No. 2 for Rs. 16,000 for two months maturing on 4th March; and B/R No. 3 for three months maturity due on 4th April, 1979)				
3	Tarun	Dr.		14,000	
	To Bills Receivable (No. 1) A/c				14,000
	(Being B/R No. 1 endorsed to Tarun, the creditor)				
Jan. 15	Bank A/c	Dr.		15,900	
	Discount A/c	Dr.		100	
	To Bills Receivable (No. 2) A/c				16,000
	(Being B/R No. 2 got discounted from the Bank, the charges being Rs. 100)				
Feb. 4	Bills sent for collection A/c	Dr.		18,000	
	To Bills Receivable (No. 3) A/c				18,000
	(Being B/R No. 3 sent to bank for collection)				

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
1979				
Mar. 4	Chetan	Dr.	16,240	
	To Bank A/c			16,240
	(Being B/R No. 2 which was got discounted from the Bank is dishonoured by Chetan and the Bank incurred noting charges of Rs. 240)			
Mar. 4	Chetan	Dr.	300	
	To Interest A/c			300
	(Being amount of interest charged from Chetan for two months on the amount of Rs. 16,240)			
Mar. 4	Bills Receivable (No. 4) A/c	Dr.	16,540	
	To Chetan			16,540
	(Being the amount due from Chetan received in the form of his acceptance for a period of two months due on 7th May, 1979)			
April 4	Bank A/c	Dr.	18,000	
	To Bills sent for collection A/c			18,000
	(Being the proceeds of B/R No. 3 sent for collection on 4th Feb. 1979, realised)			
May 7	Bank A/c	Dr.	16,540	
	To Bills Receivable (No. 4) A/c			16,540
	(Being the B/R No. 4 which was retained till maturity, realised)			

Problem 10. Pass the Journal Entries in the books of Kiran to record the following bill transactions :

(*a*) Kiran's acceptance to Sunil for Rs. 5,000 was discharged by immediate cash payment of Rs. 2,050 including Rs. 50 for interest and an acceptance of a fresh bill for the balance.

(*b*) Navin's acceptance to Kiran for Rs. 5,000 which was endorsed to Mohan, was dishonoured. Rs. 50 were paid as noting charges.

(*c*) Bipin's acceptance to Kiran for Rs. 6,000 is retired before due date for Rs. 5,850.

(*d*) Kiran discharges his acceptance to Pravin for Rs. 10,000 by Nayan's acceptance to him for the similar amount.

(I.I.B. Part I, October 1976)

ow:

JOURNAL ENTRIES IN THE BOOKS OF KIRAN

	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
	Bills Payable A/c	Dr.		5,000	
	To Sunil				5,000
	(Being the cancellation of old acceptance)				
	Interest A/c	Dr.		50	
	To Sunil				50
	(Being interest payable to Sunil for renewal of the 60% amount of the bill)				
	Sunil	Dr.		5,050	
	To Cash A/c				2,050
	To Bills Payable A/c				3,000
	(Being the amount due remitted partly in cash and partly by accepting a fresh bill in favour of Sunil)				
(b)	Navin	Dr.		5,050	
	To Mohan				5,050
	(Being the bill receivable accepted by Navin and endorsed to Mohan dishonoured and a sum of Rs. 50 paid by Mohan towards noting charges)				
	Cash A/c	Dr.		5,850	
	Rebate A/c	Dr.		150	
	To Bills Receivable A/c				6,000
	(Being the acceptance of Bipin met before due date and allowed rebate @ 2½%)				
	Bills Payable A/c	Dr.		10,000	
	To Bills Receivable A/c				10,0
	(Being amount payable to Pravin on account of our acceptance in his favour discharged by Nayan's acceptance in our favour for the similar amount)				

Problem 11. On 1st July 1971, M owes to S Rs. 1,200 and ac... Rs. 400 each due respectively in one, two and four mo...

The first bill is retained by S and is duly met. The second bill w discounted (charges being Rs. 4) and is met in due course. The third also discounted (charges being Rs. 4) and is dishonoured. The nota charges being Rs. 10.

New arrangements are duly made whereby M pays cash Rs. and accepts a bill due in two months for the balance of the amount w interest at 6% p.a. The bill is retained. On due date the same is honoured, notarial charge being Rs. 7. M shortly is made insolvent 25 p. in a rupee was received from his estate.

Pass Journal entries in the books of S.

(I.I.B. Part I, May 19

Solution:

JOURNAL ENTRIES IN THE BOOKS OF S

Date	*Particulars*		*L.F.*	*Debit Amount*	*Cre Amo*
1971				Rs. P	Rs.
Jul. 1	Bills Receivable (No. 1) A/c	Dr.		400·00	
	Bills Receivable (No. 2) A/c	Dr.		400·00	
	Bills Receivable (No. 3) A/c	Dr.		400·00	
	To M				1,20(
	(Being the amount owed by M received in the form of three acceptances of Rs. 400 each—B/R No. 1 for one month maturity due on 4th August; B/R No. 2 for two months maturity due on 4th September; and B/R No. 3 for four months maturity due on 4th November, 1971)				
Jul. 1	Bank A/c	Dr.		396·00	
	Discount A/c	Dr.		4·00	
	To Bills Receivable (No. 2) A/c				
	(Being B/R No. 2 got discounted from the bank—the charges being Rs. 4)				
Jul. 1	Bank A/c	Dr.		396·00	
	Discount A/c	Dr.		4·0(	
	To Bills Receivable (No. 3) A/c				
	(Being B/R No. 3 got discounted from the bank—charges being Rs. 4)				
Aug. 4	Cash A/c	Dr.			
	To Bills Receivable (No. 1) A/c				
	(Being the B/R No. 1 which was retained, met on maturity by M)				

Date	Particulars		Rs. P.	Rs. P.
1971				
Nov. 4	M	Dr.	410·00	
	To Bank A/c			410·00
	(Being B/R No. 3 which was got discounted from the Bank is dishonoured by M and the bank incurred noting charges of Rs. 10.			
Nov. 4	Cash A/C	Dr.	100·00	
	To M			100·00
	(Being cash received from M on account)			
Nov. 4	M	Dr.	3·10	
	To Interest A/c			3·10
	(Being amount of interest due from M @ 6% p.a. for two months on the balance amount of Rs. 310)			
Nov. 4	Bills Receivable (No.4) A/c	Dr.	313·10	
	To M			313·10
	(Being a new bill accepted by M for the amount due from him for a period of 2 months due on 7th January, 1972)			
1972				
Jan. 7	M	Dr.	320·10	
	To Bills Receivable (No. 4) A/c			313·10
	To Cash A/c			7 00
	(Being B/R No. 4 which was retained is dishonoured and Rs. 7 paid towards noting charges to be recovered from M)			
	Bank A/c	Dr.	80·03	
	Bad Debts A/c	Dr.	240·07	
	To M			320·10
	(Being M is adjudicated insolvent and only 25 p. in a rupee received from his private estate. The irrecoverable amount written off as bad debts)			

Problem 12. On 31st December 1968, at the time of preparation of the final accounts, Shri V wrote off a sum of Rs. 1,000 due to him by Y as Bad debt.

However, on 31st March 1969, Y paid cash Rs. 800 to V in full settlement of the amount.

On 1st April 1969 V sold further goods to Y invoiced at Rs. 1,500, for which Y paid Rs. 500 in cash and accepted a bill for the balance. This bill was discounted by V for Rs. 990. On due date the bill was dishonoured and V had to take it up and pay the noting charges of Rs. 5.

Y accepted a new bill for the amount due, paying interest Rs. 5 and noting charges in cash.

When the bill became due Y met the same paying Rs. 500 in cash and accepted a new bill for Rs. 510.

Before the due date, Y having become insolvent paid a composition at 25 P. in the rupee.

Journalise the above transactions in the books of V.

(I.I.B. Part I, November 1970)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF V

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1968			Rs. P.	Rs. P.
Dec. 31	Bad debts A/c	Dr.	1,000·00	
	To Y			1,000·00
	(Being amount irrecoverable from Y written off as Bad debt)			
Dec. 31	Profit & Loss A/c	Dr.	1,000·00	
	To Bad Debts A/c			1,000·00
	(Being amount of loss on account of Bad debts transferred to the Profit & Loss Account at the time of preparation of final accounts)			
1969				
Mar. 31	Cash A/c	Dr.	800·00	
	To Bad debts (Recovered) A/c			800·00
	(Being the amount already written off as bad debt recovered from Y)			
Apr. 1	Y	Dr.	1,500·00	
	To Sales A/c			1,500·00
	(Being goods sold to Y vide invoice No............of date)			

Date	Particulars		Rs. P.	Rs. P.
1969				
Apr. 1	Cash A/c	Dr.	500·00	
	Bills Receivable	Dr.	1,000·00	
	To Y			1,500·00
	(Being the amount due from Y, received partly in cash and partly in the shape of an acceptance for a period of two months due on 4th June, 1969) **Note:** It is assumed that the bill is for two months maturity.			
Apr. 1	Bank A/c	Dr.	990·00	
	Discount A/c	Dr.	10·00	
	To Bills Receivable A/c			1,000·00
	(Being the acceptance got discounted from the bank).			
June 4	Y	Dr.	1,005·00	
	To Bank A/c			1,005·00
	(Being the bill already discounted, now dishonoured and a sum of Rs. 5 paid as noting charges)			
June 4	Cash A/c	Dr.	10·00	
	To Y			5·00
	To Interest A/c			5·00
	(Being cash received from Y for noting charges, paid on his behalf, and for interest, as the bill is renewed)			
June 4	Bills Receivable A/c	Dr.	1,000·00	
	To Y			1,000·00
	(Being a new bill accepted by Y for a period of 2 months due on 7th August, 1969) **Note:** It is assumed that the bill is for two months maturity.			
Aug. 7	Y	Dr.	1,000·00	
	To Bills Receivable A/c			1,000·00
	(Being the retained bill dishonoured on the due date)			

			Rs. P.	Rs. P.
1969				
Aug. 7	Y	Dr.	10·00	
	To Interest A/c			10·00
	(Being interest on the amount due from Y)			
Aug. 7	Cash A/c	Dr.	500·00	
	Bill Receivable A/c	Dr.	510·00	
	To Y			1,010·00
	(Being the part amount due from Y received in cash and balance in the shape of an acceptance for a period of 2 months due on 10th October, 1969) Note: It is assumed that the bill is for two months maturity.			
Oct. 1	Y	Dr.	510·00	
	To Bills Receivable A/c			510·00
	(Being Y is adjudicated insolvent and the bill accepted by him dishonoured)			
Oct. 1	Bank A/c	Dr.	127·50	
	Bad Debts A/c	Dr.	382·50	
	To Y			510·00
	(Being on the insolvency of Y a composition of 25 p. in a rupee received from his private estate. The balance amount due from him became irrecoverable and written off as bad debts)			
Dec. 31	Bad Debts A/c	Dr.	417·50	
	To Profit & Loss A/c			417·50
	(Being the balance in bad debts account—recovered Rs. 800 and written off Rs. 382·50 – *i.e.*, the income on this account transferred to the Profit and Loss account at the time of preparation of final accounts)			

Problem 13. Whilst closing the books of accounts as on 31st December 1972 a sum of Rs. 600 due by B to A was written off as bad debt. However, in order to keep the business transactions going, Mr. B paid to Mr. A on 10th January 1973 a sum of Rs. 500 in full or final settlement of the amount due.

After taking into consideration the following transactions, show (1) B/R Account, (2) Mr. B's Account, and (3) Bad debts Account in the books of Mr. A:

1973

Jan. 11 Sold goods to B for Rs. 1,200. B paid Rs. 200 in cash and accepted a bill for Rs. 1,000 at one month. This bill was discounted with the Bankers for Rs. 998.

Feb. 14 The above bill was dishonoured. Bank charging Rs. 5 as notarial charges.

„ 15 B accepted a new bill for Rs. 1,000 at two months in lieu of the above bill, paying notarial charges and Rs. 15 as interest in cash.

Apr. 18 B met his bill by paying Rs. 550 in cash and accepted a fresh bill for Rs. 475 at 3 months with interest.

June 1 B became insolvent and 50 per cent of the amount due by his estate was distributed amongst his creditors.

Journal entries are not required.

(I.I.B. Part I, May 1973)

Solution:

Ledger Accounts in the Books of A

Dr. BILLS RECEIVABLE ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1973		Rs. P.	1973		Rs. P.
Jan. 11	To B	1,000·00	Jan. 11	By Bank A/c	998·00
				By Discount A/c	2·00
Feb. 15	To B	1,000·00	Apr. 18	By B	1,000·00
Apr. 18	To B	475 00	June 1	By A	475·00
		2,475·00			2,475·00

Dr. B's ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1972		Rs. P.	1972		Rs. P.
Dec. 31	To Balance b/f	600·00	Dec. 31	By Bad Debts	600·00
		600·00			600·00

B's ACCOUNT

1973			1973		
Jan. 11	To Sales A/c	1,200·00	Jan. 11	By Cash A/c	200·00
Feb. 14	To Bank A/c	1,005·00		By B/R A/c	1,000·00
Feb. 15	To Interest A/c	15·00	Feb. 15	By Cash A/c	20 00
Apr. 18	To B/R A/c	1,000·00		By B/R A/c	1,000·00
Apr 18	To interest A/c	25·00	Apr. 18	By Cash A/c	550.00
June 1	To B/R A/c	475 00		By B/R A/C	475·00
			June 1	By Cash A/c	237·50
				By Bad Debts	237·50
		3,720 00			3,720·00

BAD DEBTS ACCOUNT

Dr.					Cr.
1972		Rs. P.	1972		Rs. P.
Dec. 31	To B	600·00	Dec, 31	By Profit & Loss A/c	600 00
		600·00			600·00
1973			1973		
June 1	To B	237·50	Jan. 10	By Cash A/c	500·00
Dec. 31	To Profit & Loss A/c	262·50			
		500·00			500·00

Working Notes. The above noted ledger accounts will be prepared on the basis of the following journal entries in the books of A :

JOURNAL ENTRIES IN THE BOOKS OF A

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1972				Rs. P.	Rs. P.
Dec. 31	Bad Debts A/c To B	Dr.		600·00	600·00
Dec. 31	Profit & Loss A/c To Bad debts A/c	Dr.		600·00	600·00
1973 Jan. 10	Cash A/c To Bad debts (Recovered) A/c	Dr.		500·00	500·00

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
1973				
Jan. 11	Cash A/c	Dr.	200·00	
	B's A/c	Dr.	1,000·00	
	To Sales A/c			1,200·00
Jan. 11	Bills Receivable A/c	Dr.	1,000·00	
	To B's A/c			1,000·00
Jan. 11	Bank A/c	Dr.	998·00	
	Discount A/c	Dr.	2·00	
	To Bills Receivable A/c			1,000·00
Feb. 14	B's A/c	Dr.	1,005·00	
	To Bank A/c			1,005·00
Feb. 15	B's A/c	Dr.	15·00	
	To Interest A/c			15·00
Feb. 15	Cash A/c	Dr.	20·00	
	To B's A/c			20·00
Feb. 15	Bills Receivable A/c	Dr.	1,000·00	
	To B's A/c			1,000·00
Apr. 18	B's A/c	Dr.	1,000·00	
	To Bills Receivable A/c			1,000·00
Apr. 18	B's A/c	Dr.	25·00	
	To Interest A/c			25·00
Apr. 18	Cash A/c	Dr.	550·00	
	Bills Receivable A/c	Dr.	475·00	
	To B's A/c			1025·00
June 1	B's A/c	Dr.	475·00	
	To Bills Receivable A/c			475·00
June 1	Cash A/c	Dr.	237·50	
	Bad debts A/c	Dr.	237·50	
	To B's A/c			475·00

Problem. 14. Journalise the following transactions in the books of A:

(*a*) Acceptance to B for Rs. 500 retired before due date, rebate allowed Rs. 10.

(*b*) C's acceptance for Rs. 400 renewed for a further period of 3 months, with Rs. 5 as interest.

(c) B/P drawn by D for Rs 800 renewed for 3 months by paying Rs. 200 in cash and accepting another bill for Rs. 609 including interest.

(d) E's acceptance, endorsed in favour of F dishonoured. F paid Rs. 10 as noting charges. Paid F by cheque and accepted from E another bill for the amount due plus interest-Rs. 15.

(e) Due to lack of instructions over P/N in favour of H returned unpaid by Bank for Rs. 500. H claimed Rs. 510 which was paid by cheque.

(f) Bill for Rs. 5,000 accepted by K was endorsed against another B/P due for payment for the same sum.

(I.I B. Part I, May 1973)

Solution :

JOURNAL ENTRIES IN THE BOOKS OF A

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(a)	Bills Payable A/c Dr.		500	
	To Cash A/c			490
	To Rebate A/c			10
	(Being our acceptance in favour of B retired before due date, at a rebate of 2%)			
(b)	C's A/c Dr.		400	
	To Bills Receivable A/c			400
	(Being C's acceptance cancelled for its renewal)			
	C's A/c Dr.		5	
	To Interest A/c			5
	(Being the amount of interest receivable from C on account of the renwal of a bill for Rs. 400 for a period of 4 months)			
	Bills Receivable A/c Dr.		405	
	To C's A/c			405
	(Being a new bill accepted by C for a period of 3 months for the balance due inclusive of interest for the period)			

(c)	Bills Payable A/c Dr. To D's A/c (Being the acceptance in favour of D cancelled for renewal)	800	800
	Interest A/c Dr. To D's A/c (Being the amount of intetest payable due for a period of 3 months on Rs. 600, the balance due)	9	9
	D's A/c Dr. To Cash A/c To Bills Payable A/c (Being the amount due to D settled partly by paying cash and partly by accepting a new bill for a period of 3 months)	809	200 609

(*d*) **Note.** As the amount of the bill is not given in the question, it is assumed that the original acceptance was for Rs. 1,000.

	Rs.	Rs.
E's A/c Dr. To F's A/c (Being dishonour of E's acceptance, which was endorsed to F, amounting to Rs. 1,000. F paid Rs. 10 towards noting charges which are recoverable from E)	1,010	1,010
F's A/c Dr. To Bank A/c (Being amount due to F paid by cheque)	1,010	1,010
E's A/c Dr. To Interest A/c (Being amount of Interest receivable from E)	15	15

	Bills Receivable A/c Dr.		1,025	
	To E's A/c			1,025
	(Being the new bill accepted by E in lieu of the old bill, including noting charges and interest for the renewal period)			
(e)	Bills Payable A/c	Dr.	500	
	To H's A/c			500
	(Being our Promissory Note drawn in favour of H returned by the Bank due to lack of proper instructions to them)			
	Interest A/c	Dr.	10	
	To H's A/c			10
	(Being amount of interest payable to H)			
	Note. It is assumed that the excess amount charged by H is due to interest. This may also be taken as the Noting Charges, in which case the amount of Rs. 10 will be debited to the Noting Charges Account and credited to H.			
	H's A/c	Dr.	510	
	To Bank A/c			510
	(Being the amount due to H paid by cheque)			
(f)	Bills Payable A/c	Dr.	5,000	
	To Bills Receivable A/c			5,000
	(Being the bill receivable accepted by K, endorsed against another Bill Payable due for payment for the same amount)			

Problem 15. On 1st October 1969, A drew a bill on B for Rs. 500 and B drew a Bill on A for a similar amount, both the bills for a term of 3 months. Both the bills were discounted at the Bank. The Bank charged Rs. 8 for discount. On the due date B met his bill. A, however, notified B of his inability to meet the bill and B, therefore, had to take it up. A paid B Rs. 200 on 3rd January 1970 and accepted another bill drawn by B at two months' date for Rs. 307 including interest. This acceptance having been met by A on the due date.

Pass journal entries in the books of both the parties.

(I.I.B. Part I, May 1970)

Solution :

JOURNAL ENTRIES IN THE BOOKS OF A

Date	Particulars		L.F.	Debit Amount	Credit Amount
1969				Rs.	Rs.
Oct. 1	Bills Receivable A/c	Dr.		500	
	To B's A/c				500
	(Being the amount of the bill accepted by B for a period of 3 months due on Jan. 4, 1970)				
Oct. 1	B's A/c	Dr.		500	
	To Bills Payable A/c				500
	(Being the bill drawn by B accepted for a period of 3 months due on 4th Jan., 1970)				
Oct. 1	Bank A/c	Dr.		492	
	Discount A/c	Dr.		8	
	To Bills Receivable A/c				500
	(Being B's acceptance got discounted from the Bank)				
1970					
Jan. 3	Bills Payable A/c	Dr.		500	
	To B's A/c				500
	(Being unable to meet the acceptance on due date, therefore the B/P is dishonoured)				
Jan. 3	B's A/c	Dr.		200	
	To Cash A/c				200
	(Being part of the amount due paid in cash)				
Jan. 3	Interest A/c	Dr.		7	
	To B's A/c				7
	(Being interest on the balance due charged by B for a period of 2 months)				

1970				
Jan. 3	B's A/c Dr.		307	
	To Bills Payable A/c			307
	(Being a new bill drawn by B for the balance amount, including interest, accepted for a period of 2 months due on 6th March 1970)			
Mar. 6	Bills Payable A/c Dr.		307	
	To Cash A/c			307
	(Being the payment of the bill on due date)			

JOURNAL ENTRIES IN THE BOOKS OF B

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1969			Rs.	Rs.
Oct. 1	A's A/c Dr.		500	
	To Bills Payable A/c.			500
	(Being the bill drawn by A accepted for a period of 3 months, due on 4th Jan., 1970)			
Oct. 1	Bills Receivable A/c Dr.		500	
	To A's A/c			500
	(Being the amount of the bill accepted by A for a period of 3 months due on Jan. 4, 1970)			
Oct. 1	Bank A/c Dr.		492	
	Discount A/c Dr.		8	
	To Bills Receivable A/c			500
	(Being A's acceptance got discounted from the Bank)			
1970				
Jan. 3	A's A/c Dr.		500	
	To Bank A/c			500
	(Being the bill accepted by A and got discounted from Bank, dishonoured)			
Jan. 3	Cash A/c Dr.		200	
	To A's A/c			200
	(Being part amount received from A on account)			

1970 Jan. 3	A's A/c Dr. To Interest A/c (Being interest on the balance due charged from A for a period of 2 months)	7	7
Jan. 3	Bills Receivable A/c Dr. To A's A/c (Being a new bill for the amount due including interest accepted by A for a period of 2 months due on 6th March, 1970)	307	307
Jan. 4	Bills Payable A/c Dr. To Bank A/c (Being the payment of the bill accepted on maturity)	500	500
Mar. 6	Cash A/c Dr. To Bills Receivable A/c (Being the bill accepted by A retained and met by him on maturity)	307	307

Problem 16. X draws a bill for Rs. 1,500 and Y accepts the same for the mutual accommodation of both of them to the extent of X 2/3rd and Y1/3rd. X discounts the same for Rs. 1,410 and remits 1/3rd of the proceeds to Y. Before the due date, Y draws another bill for Rs. 2,100 on X in order to provide funds to meet the first bill. The second bill is discounted for Rs. 2,040 with the help of which the first bill is met and Rs. 360 are remitted to X. Before the due date of the second bill, X becomes bankrupt and Y receives a dividend of 50 p. in the rupee in full satisfiaction.

Pass the necessary journal entries (*with full narration*) in the books of Y.

(I.I.B: Part I, April 1980)

Solution :

JOURNAL ENTRIES IN THE BOOKS OF Y

Sl.	*Particulars*	*L. F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
1.	X's A/c Dr. To Bills Payable A/c (Being the bill drawn by X accepted for the mutual accommodation)		1,500	1,500

2.	Bank A/c	Dr.	470	
	Discount A/c	Dr.	30	
	To X's A/c			500
	(Being receipt of 1/3rd of the proceeds of the bill accepted alongwith the proportionate share in the discount. The bill amounting to Rs. 1,500 is got discounted by X for Rs 1,410)			
3.	Bills Receivable A/c	Dr	2,100	
	To X's A/c			2,100
	(Being the bill drawn on X received duly accepted by him. The amount is required to provide funds to meet the first bill)			
4	Bank A/c	Dr.	2,040	
	Discount A/c	Dr.	60	
	To Bills Receivable A/c			2,100
	(Being the bill got discounted from the Bank)			
5.	Bills Payable A/c	Dr.	1,500	
	To Bank A/c			1,500
	(Being the acceptance of the bill met on the due date)			
6.	X's A/c	Dr.	400	
	To Bank A/c			360
	To Discount A/c			40
	[Being 2/3rd proceeds of the second bill, *i.e.*, Rs. 1,400 sent to X after adjusting his share of Rs. 1,000 of the first bill. The proportionate share of discount (2/3rd of Rs. 60) is also deducted]			
7.	X's A/c	Dr.	2,100	
	To Bank A/c			2,100
	(Being the second bill duly accepted by X dishonoured on his adjudicated as bankrupt. As the bill was already got discounted from the Bank, the amount has been credited in the Bank account)			

8.	Bank A/c	Dr.	700	
	Bad debts A/c	Dr.	700	
	To X's A/c			1,400
	(Being the receipt of 50 paise in the rupee of the amount due from X's private estate on his becoming insolvent. The irrecoverable amount due is written off as bad debts)			

Workings :

Calculation of amount due from X:

X's ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
1.	To Bills Payable	1,500	2.	By Bank A/c	470
6.	To Bank	360		By Discount A/c	30
	To Discount	40	3.	By Bills Receivable	2,100
7.	To Bank	2,100	4.	By Balance:	
				50% received 700	
				50% Bad debts 700	1,400
		4,000			4,000

Problem 17. Lalji draws a bill for Rs. 4,500 on Palji on 2nd January 1980 for 3 months. Lalji gets it discounted with the Bank for Rs. 4,410; and on 3rd January remits one-third of the amount to Palji, which Palji receives on 5th January. On the due date, Lalji fails to remit amount due to Palji ; but he accepts a bill for Rs, 6,300 for 3 months which Palji discounts for Rs. 6,165 and remits Rs. 1,110 to Lalji. Before the maturity of the renewed bill, Lalji becomes insolvent and only 50% was realised from his estate on July 10. Pass Journal entries, with full narration, in the books of Lalji.

(*I.I.B. Part I, October 1980*)

JOURNAL ENTRIES IN THE BOOKS OF LALJI

Date	*Particulars*		*L. F.*	*Debit Amount*	*Credit Amount*
1980				Rs.	Rs.
Jan. 2	Bills Receivable A/c	Dr.		4,500	
	To Palji's A/c				4,500
	(Being bill drawn on and accepted by Palji)				

1980				
Jan. 2	Bank A/c	Dr.	4,410	
	Discount A/c		90	
	To Bills Receivable A/c			4,500
	(Being the bill got discounted from the bank, the charges being Rs. 90)			
Jan. 3.	Palji's A/c	Dr.	1,500	
	To Bank A/c			1,470
	To Discount A/c			30
	(Being 1/3rd of the proceeds of the bill remitted to Palji alongwith proportionate share in the discount)			
April 5	Palji's A/c	Dr.	6,300	
	To Bills Payable A/c			6,300
	(Being bill drawn by Palji accepted by us)			

Note: *A sum of Rs. 3,000 is to be paid by Lalji to Palji to enable* him to honour the bill on due date. But he fails to remit the amount and accepts a bill for Rs. 6,300.

April 5	Bank A/c	Dr.	1,110	
	Discount A/c	Dr.	90	
	To Palji's A/c			1,200
	(Being Palji got the bill discounted from the Bank at a discount of Rs. 135 and remitted 2/3rd of the proceeds after adjusting their old dues)			

Note 2.

	Rs.
2/3rd of the value & the bill of Rs. 6,300	4,200
Less : Amount payable to Palji as per Note 1	3,000
	1,200
2/3rd of the discounting charges of Rs. 135	90
Net remittance received	1,110

July 8	Bills Payable A/c	Dr.	6,300	
	To Palji's A/c			6,300
	(Being the bill accepted by Lalji dishonoured on his being adjudicated insolvent)			

1980				
July 10	Palji's A/c	Dr.	4,200	
	To Cash A/c			2,100
	To Unpaid A/c			2,100
	(Being 50% of the amount due to Palji is paid by the official receiver of Lalji from his private estate)			

Note 3. The position of Palji's account in the books of Lalji's can be ascertained by prepairing their account as under :

Dr. PALJI's ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1980		Rs.	1980		Rs.
Jan. 3	To Bank A/c	1,470	Jan. 2	By Bills Receivable A/c	4,500
	To Discount A/c	30			
Apr. 5	To Bills Payable A/c	6,300	Apr. 5	By Bank A/c	1,110
July 10	To Cash A/c (50% of the balancing figure)	2,100		By Discount A/c	90
	To Unpaid A/c (50% of the balancing figure)	2,100	July 8	By Bills Payable A/c	6,300
		12,000			12,000

Problem 18. On 1st January 1974 Mr. Ajay for mutual accommodation of himself and his friend, Mr. Asit drew on the latter a bill for Rs. 10,000 payable at 3 months date. The bill was discounted with Bank of India at 12% per annum and 50% of proceeds were remitted to Mr. Asit.

On 3rd January 1974 Mr. Asit drew a bill on Mr. Ajay for Rs. 16,000 payable at 3 months date. The bill was discounted with Bank of Baroda at 10% and 50% of the proceeds were remitted to Mr. Ajay. Mr. Asit became insolvent on 28th February 1974, and only 40% could be recovered from his estate.

Write the journal entries with proper narration and prepare the ledger account of Mr. Asit in the books of Mr. Ajay.

(*I.I.B. Part I, November 1975*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF AJAY

Date	*Particulars*		*L. F.*	*Debit Amount*	*Credit Amount*
1974				Rs.	Rs.
Jan. 1	Bills Receivable A/c	Dr.		10,000	
	To Asit's A/c				10,000
	(Being the bill drawn on Asit received duly accepted by him for a period of 3 months, due on 4th April, 1974)				
Jan. 1	Bank A/c	Dr.		9,700	
	Discount A/c	Dr.		300	
	To Bills Receivable A/c				10,000
	(Being the bill got discounted from the Bank of India @ 12% p.a. for a period of 3 months)				
Jan. 1	Asit's A/c	Dr.		5,000	
	To Bank A/c				4,850
	To Discount A/c				150
	(Being 50% proceeds sent to Asit and the proportionate share of discount charged from him)				
Jan. 3	Asit's A/c	Dr.		16,000	
	To Bills Payable A/c				16,000
	(Being bill drawn by Asit accepted for a period of 3 months due on 6-4-1974)				
Jan. 3	Bank A/c	Dr.		7,800	
	Discount A/c	Dr.		200	
	To Asit				8,000
	(Being receipt of 50% of the proceeds of the bill accepted alongwith the proportionate share in the discount @ 10% p.a. for a period of 3 months)				

Note. It is assumed that the bill was discounted with Bank of Baroda at 10% p.a. and not at 10% as given.

1980				
July 10	Palji's A/c	Dr.	4,200	
	To Cash A/c			2,100
	To Unpaid A/c			2,100
	(Being 50% of the amount due to Palji is paid by the official receiver of Lalji from his private estate)			

Note 3. The position of Palji's account in the books of Lalji's can be ascertained by prepairing their account as under :

Dr. PALJI's ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1980		Rs.	1980		Rs.
Jan. 3	To Bank A/c	1,470	Jan. 2	By Bills Receivable A/c	4,500
	To Discount A/c	30			
Apr. 5	To Bills Payable A/c	6,300	Apr. 5	By Bank A/c	1,110
July 10	To Cash A/c (50% of the balancing figure)	2,100		By Discount A/c	90
	To Unpaid A/c (50% of the balancing figure)	2,100	July 8	By Bills Payable A/c	6,300
		12,000			12,000

Problem 18. On 1st January 1974 Mr. Ajay for mutual accommodation of himself and his friend, Mr. Asit drew on the latter a bill for Rs. 10,000 payable at 3 months date. The bill was discounted with Bank of India at 12% per annum and 50% of proceeds were remitted to Mr. Asit.

On 3rd January 1974 Mr. Asit drew a bill on Mr. Ajay for Rs. 16,000 payable at 3 months date. The bill was discounted with Bank of Baroda at 10% and 50% of the proceeds were remitted to Mr. Ajay. Mr. Asit became insolvent on 28th February 1974, and only 40% could be recovered from his estate.

Write the journal entries with proper narration and prepare the ledger account of Mr. Asit in the books of Mr. Ajay.

(*I.I.B. Part I, November 1975*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF AJAY

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1974			Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr.		10,000	
	To Asit's A/c			10,000
	(Being the bill drawn on Asit received duly accepted by him for a period of 3 months, due on 4th April, 1974)			
Jan. 1	Bank A/c Dr.		9,700	
	Discount A/c Dr.		300	
	To Bills Receivable A/c			10,000
	(Being the bill got discounted from the Bank of India @ 12% p.a. for a period of 3 months)			
Jan. 1	Asit's A/c Dr.		5,000	
	To Bank A/c			4,850
	To Discount A/c			150
	(Being 50% proceeds sent to Asit and the proportionate share of discount charged from him)			
Jan. 3	Asit's A/c Dr.		[illegible]	
	To Bills Payable A/c			[illegible]
	(Being bill drawn by Asit accepted for a period of 3 months due on 6-4-1974)			
Jan. 3	Bank A/c Dr.		[illegible]	
	Discount A/c Dr.		[illegible]	
	To Asit			[illegible]
	(Being receipt of 50% of the proceeds of the bill accepted alongwith the proportionate share in the discount @ 10% p.a. for a period of 3 months)			

Note. It is assumed that the bill was [illegible] of Baroda at 10% p.a. and not at 10% as [illegible]

Date	Particulars		Dr.	Cr.
1974				
Feb. 28	Asit's A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being the bill dated 1st Jan. 1974 duly accepted by Asit dishonoured on his adjudicated as insolvent. As the bills was already discounted from the bank, the amount has been credited in the Bank of India account)			
Feb. 28	Bank A/c	Dr.	5,200	
	Bad Debts A/c	Dr.	7,800	
	To Asit			13,000
	(Being the receipt of 40% of the amount due from his private estate on his becoming insolvent. The irrecoverable 60% of amount due is written off as bad debts)			
April 6	Bills Payable A/c	Dr.	16,000	
	To Bank A/c			16,000
	(Being our acceptance met on the due date)			

In the Ledger of Mr. Ajay :

Dr. ASIT's ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1974		Rs.	1974		Rs.
Jan. 1	To Bank A/c	4,850	Jan. 1	By B/R A/c	10,000
	To Discount A/c	150	Jan. 3	By Bank A/c	7,800
Jan. 3	To Bills Payable	16,000		By Discount A/c	200
Feb. 28	To Bank A/c	10,000	Fhb. 28	By Bank A/c	5,200
				By Bad debts A/c	7,800
		31,000			31,000

Problem 19. The following bills are drawn and duly accepted :

No. 1. A. Bannerjee, 1st July 19...for Rs. 150 at one month payable at Central Bank.

No. 2. D. Ram, 13th July 19... for Rs. 560 at three months payable at Bank of India.

No. 3. R. Peshotan, 2nd August 19... for Rs. 738 at three months payable at Lloyds Bank.

No. 4. W. Dawn, 12th September 19...for Rs. 2,000 at six months payable at Mercantile Bank.

Bill No. 1 was duly n [illegible] Rs. 550 and was duly met. Bill No. 3 [illegible] 400 on 6th November and accepte [illegible] e balance including Rs. 70 for Interest and Rs. 25 for expenses.

Bill No. 4 was an accomodation bill and was discounted for Rs. 1,800, the proceeds being equally divided between the drawer and Mr. Dawn. On due date the bill was duly met when Mr. Dawn paid his share of the bill.

Show the necessary entries in the books of the drawer, in Cash Book and Bill Receivable, Discount and Interest accounts.

(*I.I.B. Part I, November 1974*)

Solution:

In the Books of the Drawer

ENTRIES IN THE CASH BOOK
(Showing both Cash and Bank items)

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
19...		Rs.	19...		Rs.
Jul. 13	To B/R (No. 2) A/c	550	Sept. 12	By W. Dawn	900
Aug. 4	To B/R (No. 1) A/c	150	Nov. 6	By R. Peshotan	25
Sep. 12	To B/R (No. 4) A/c	1,800			
Nov. 6	To R. Peshotan	400			
19 ..			19 ..		
Feb. 8	To B/R (No. 5) A/c	433	Mar. 15	By W. Dawn	2,000
Mar. 15	To W. Dawn	1,000			

BILLS RECEIVABLE ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
19...		Rs.	19...		Rs.
July 1	To A. Bannerjee	150	July 13	By Bank A/c	550
July 13	To D. Ram	560		By Discount A/c	10
Aug. 2	To R. Peshotan	738	Aug. 4	By Bank A/c	150
Sept. 12	To W. Dawn	2,000	Sept. 12	By Bank A/c	1,800
Nov. 6	To R. Peshotan	433		By Discount A/c	200
			Nov. 5	By R. Peshotan	738
			19...		
			Feb. 9	By Cash A/c	433
		3,881			3,881

DISCOUNT ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
19...		Rs.	19...		Rs.
July 13	To B/R (No. 2) A/c	10	Sept. 12	By W. Dawn	100
Sept. 12	To B/R (No. 4) A/c	200			

INTEREST ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
19...		Rs.	19...		Rs.
			Nov. 6	By R. Peshotan	70

Working Notes.

The Journal Entries for the above-noted transactions will be passed as under:

JOURNAL ENTRIES IN THE BOOKS OF THE DRAWER

Date	Particulars	L.F.	Debit Amount	Credit Amount
19...			Rs.	Rs.
July 1	Bills Receivable (No. 1) A/c Dr.		150	
	To A. Bannerjee			150
July 13	Bills Receivable (No. 2) A/c Dr.		560	
	To D. Ram			560
July 13	Bank A/c Dr.		550	
	Discount A/c Dr.		10	
	To Bills Receivable (No. 2) A/c			560
Aug. 2	Bills Receivable (No. 3) A/c Dr.		738	
	To R. Peshotan			738
Aug. 4	Bank A/c Dr.		150	
	To Bills Receivable (No. 1) A/c			150
Sept. 12	Bills Receivable (No. 4) A/c Dr.		2,000	
	To W. Dawn			2,000
Sept. 12	Bank A/c Dr.		1,800	
	Discount A/c Dr.		200	
	To Bills Receivable (No. 4) A/c			2,000

Date	Particulars		Rs.	Rs.
19.. Sept. 12	W. Dawn	Dr.	1,000	
	To Bank A/c			900
	To Discount A/c			100
Nov. 5	R. Peshotan	Dr.	738	
	To Bills Receivable (No. 3) A/c			738
Nov. 6	Cash A/c	Dr.	400	
	To R. Peshotan			400
Nov. 6	R. Peshotan	Dr.	95	
	To Cash A/c (Expenses)			25
	To Interest A/c			70
Nov. 6	Bills Receivable (No. 5) A/c	Dr.	433	
	To R. Peshotan			433
19.. Feb. 9	Cash A/c	Dr.	433	
	To Bills Receivable (No. 5) A/c			433
	Note : It is assumed that B/R. No. 5 is retained and met on maturity			
Mar. 15	Cash A/c	Dr.	1,000	
	To W. Dawn			1,000
Mar. 15	W. Dawn	Dr.	2,000	
	To Bank A/c			2,000

Problem 10 : From the following particulars of Mr. Ram & Co., show the entries in the Ledger Form upto 30th September 1980 :—

(*a*) Cash Book (*b*) Bills Receivable Account ; (*c*) Bills Payable Account.

The Debtors and Creditors on 30th June 1980 in the books of Ram & Co. were as under :—

Debtors	Rs.	*Creditors*	Rs.
A. Ahmed	450	G. Godse	500
B. Behram	787	H. Holmes	620
C. Corrimji	1,225	I. & Company	985
D. Dawn	2,100	J. Jack	1,750
E. Rao	1,500	K. Raman	1,800
F. Iyer	975	L. Mehta	727

The Bank Balance on 30th June 1980 was Rs. 4,320. All acceptances of Ram & Co. were made payable at their bankers, the Bank of Baroda:—

1980

July 2 Drew on A. Ahmed Bill No. 1 at one month after date for Rs. 430 allowing them discount Rs. 20, payable at State Bank of Patiala.

July 4 Received acceptance from B. Behram for Rs. 500 at 2 months date payable at Bank of India, Bill No. 2.

July 6 Accepted H. Holmes draft of the 2nd instant at 2 months date for Rs. 600 in full settlement of account, in favour of Haridas & Co., Bill No. 101.

July 3 Bills Receivable No. 1 was discounted for Rs. 420.

July 5 Discounted B. Behram acceptance with our Bankers receiving Rs. 480.

July 7 Gave G. Godse our acceptance at one month's date for Rs. 500 in favour of Vinayak Bros., Bill No. 102.

July 8 Received D. Dawn acceptance of our draft at three months date for Rs. 2,075 in full settlement of their account payable at Bank of Baroda, Bill No. 3.

July 10 C. Corrimji forwarded us X's acceptance to them for Rs. 1,225 payable at the Union Bank This bill was accepted on 15th June and drawn at 2 months date, Bill No. 4.

July 15 Received J. Jack's draft on us for 13th instant at 2 months date in favour of R & Co. for Rs. 1,700; discount allowed Rs. 50. Returned same duly accepted. Bill No. 103.

July 16 Returned duly accepted I. & Company draft for Rs. 970 in full settlement of their account at 2 months date in favour of Blance & Co. Bill No. 104.

July 19 K. Raman forwarded us their draft dated 17th instant for Rs. 1,800 in favour of White & Co. at three months date for our acceptance. Returned same accepted. Bill No. 105.

July 20 Received from E. Rao acceptance of our two drafts payable at the Central Bank of India at 2 months date for Rs. 800 and Rs. 700 respectively. Bill No. 5 and 6.

July 21 Endorsed over E. Rao acceptance for Rs. 700 in favour of L. Mehta in full settlement of their account.

July 25 Received from F. Iyer, R & Co's acceptance to him for Rs. 600 at one month's date payable at the State Bank of India. Bill drawn on 20th July. Bill No. 7.

Bill Nos. 101, 102, 103 were duly met by our Bankers. Bill No. 104 is renewed by us on 17th September by paying I & Company Rs. 500 by cheque including Rs. 30 for interest and accepting new draft on us at three months date for the balance. Bill Nos. 4, 5 and 6 are dishonoured on due dates. Bill No. 7 is collected by us on due date.

(*I.I.B. Part I, May 1982*)

Solution:

(*a*)

CASH BOOK

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Discount*	*Bank*	*Date*	*Particulars*	*L.F.*	*Discount*	*Bank*
			Rs.	Rs.	1980			Rs.	Rs.
1980					July 6	By H. Holmes		20	—
July 1	To Balance b/d			4,320	„ 15	By J. Jack		50	—
„ 2	To A. Ahmed		20	—	„ 16	By I & Co.		15	—
„ 3	To B/R No. 1		10	420	„ 21	By L. Mehta		27	—
„ 5	To B/R No. 2		20	480	Aug. 10	By B/P No. 102		—	500
„ 8	To D. Dawn		25	—	Sep. 5	By B/P No. 101		—	600
Aug. 23	To B/R No. 7		—	600	„ 16	By B/P No. 103		—	1700
Sep. 23	To L. Mehta		27	—	„ 17	By I & Co.		—	500
					„ 30	By Balance c/d		—	2,520
			102	5,820				112	5,820

(b)

BILLS RECEIVABLE A/c

Dr. Cr.

Date	Particulars	B/R No.	Payable at	Due on	L.F.	Amount	Date	Particulars	B/R. No.	L. F.	Amount
1980						Rs.	1980				Rs.
July 2	To A. Ahmed	1	SBP	5. 8.80		430	July 3	By Bank	1		420
„ 4	To B. Behram	2	BOI	7. 9.80		500		By Discount	—		10
„ 8	To D. Dawn	3	BOB	11.10.80		2,075	„ 5	By Bank	2		480
„ 10	To C. Corrimji	4	UB	18. 8.80		1,225		By Discount	—		20
„ 20	To E. Rao	5	CBI	23. 9.80		800	„ 21	By L. Mehta	6		700
	To E. Rao	6	CBI	23. 9.80		700	Aug. 18	By C. Corrimji	4		1,225
„ 25	To F. Iyer	7	BOI	23. 8.80		600	„ 23	By Bank A/c	7		600
Sep. 23	To L. Mehta	6	—	—		700	Sep. 23	By E. Rao	5		800
							„ 23	By E. Rao	6		700
							„ 30	By Balance c/d	3		2,075
						7,030					7,030

(c)

BILLS PAYABLE A/c

Dr. Cr.

Date	Particulars	B/P No.	L. F.	Amount	Date	Particulars	B/P	In favour of	Due on	L. F.	Amount
1980				Rs.	1980						Rs.
Aug. 10	To Bank A/c	102		500	July 6	By H. Holmes	101	Haridas & Co.	5.9.80		600
Sep. 5	To Bank A/c	101		600	,, 7	By G. Godse	102	Vinayak Bros.	10.8.80		500
,, 16	To Bank A/c	103		1,700	,, 15	By J. Jack	103	R & Co.	16.9.80		1,700
,, 17	To I & Co.	104		970	,, 16	By I & Co.	104	Blance & Co.	19.9.80		970
,, 30	ToBalance c/d *(B/P No. 105 & 106)*			2,300	,, 19	By K. Raman	105	Write & Co.	20.10.80		1,800
					Sep. 17	By I & Co.	106		20.12.80		500
				6,070							6,070

Workings:

JOURNAL ENTRIES IN THE BOOKS OF RAM & CO.

Date	Particulars	L.F.	Debit Amount	Credit Amount
1980			Rs.	Rs.
July 2	Bill Receivable (No. 1) A/c Dr.		430	
	Discount A/c Dr.		20	
	To A. Ahmed			450
	(Being bill accepted by A. Ahmed for Rs. 430 in full settlement of our claim from him for Rs. 450. The bill is payable at State Bank of Patiala and is due on 5.8.1980)			
July 3	Bank A/c Dr.		420	
	Discount A/c Dr.		10	
	To Bill Receivable (No. 1) A/c			430
	(Being bill accepted by A. Ahmed for Rs. 430 and due on 5.8.1980 got discounted from our bank at a discount of Rs. 10.)			
July 4	Bill Receivable (No. 2) A/c Dr.		500	
	To B. Behram			500
	(Being bill accepted by B. Behram as a part payment of our claim from him for Rs. 787. The bill is payable at Bank of India and is due on 7.9.1980)			
uly 5	Bank A/c Dr.		480	
	Discount A/c		20	
	To Bill Receivable (No. 2) A/c			500
	(Being bill accepted by B. Behram for Rs. 500 and due on 7.9.1980 got discounted from our bank at a discount of Rs. 20)			
July 6	H. Holmes Dr.		620	
	To Bill Payable (No. 101) A/c			600
	To Discount A/c			20
	(Being bill drawn on us by H. Holmes for Rs. 600 in full settlement of his claim on us for Rs. 620 accepted. The bill is drawn in favour of Haridas & Co. and is due on 5.9.1980.)			

July 7	G. Godse	Dr.	500	
	To Bill Payable (No. 102) A/c			500
	(Being bill drawn on us by G. Godse for Rs. 500 against his claim for the same amount. The bill is drawn in favour of Vinayak Bros. and is due on 10.8.1980)			
July 8	Bill Receivable (No. 3) A/c	Dr.	2,075	
	Discount A/c	Dr.	25	
	To D. Dawn			2,100
	(Being bill accepted by D. Dawn for Rs. 2,075 in full settlement of *our claim* from him for Rs. 2,100. The bill is payable at Bank of Baroda and is due on 11.10.1980)			
July 10	Bill Receivable (No. 4) A/c	Dr.	1,225	
	To C. Corrimji			1,225
	(Being bill accepted by X in favour of C. Corrimji, endorsed by him to us in settlement of our claim for the same amount The bill is payable at Union Bank and is due on 18.8.1980)			
July 15	J. Jack	Dr.	1,750	
	To Bill Payable (No. 103) A/c			1700
	To Discount A/c			50
	(Being bill drawn on us by J. Jack for Rs. 1,700 in full settlement of his claim on us for Rs. 1,750, accepted. The bill is drawn in favour of R. & Co. and is due on 16.9.1980)			
July 16	I & Co.	Dr.	985	
	To Bill Payable (No. 104) A/c			970
	To Discount A/c			15
	(Being bill drawn on us by I & co. for Rs. 970 in full settlement of their claim on us for Rs. 985, accepted. The bill in drawn is favour of Blance & Co. and is due on 19.9.1980)			

			Dr.	Cr.
July 19	K. Raman	Dr.	1,800	
	To Bill Payable (No. 105) A/c			1,800
	(Being bill drawn on us by K. Raman for Rs. 1,800 against his claim for the same amount. The bill is drawn in favour of write & Co. and is due on 20.10.1980)			
July 20	Bill Receivable (No. 5) A/c	Dr.	800	
	Bill Receivable (No. 6) A/c	Dr.	700	
	To E. Rao			1,500
	(Being our two bills accepted by E. Rao for Rs. 800 and Rs. 700 in settlement of our claim for the same amount. Both the bills are payable at Central Bank of India and are due on 23.9.1980)			
July 21	L. Mehta	Dr.	727	
	To Bill Receivable (No. 6) A/c			700
	To Discount A/c			27
	(Being B/R No. 6 duly accepted by E. Rao endorsed to L. Mehta. The said bill is for Rs. 700 which is given in full settlement of his claim for Rs. 727. Bill is due on 23.9.1980)			
July 25	Bill Receivable (No. 7) A/c	Dr.	600	
	To F. Iyer			600
	(Being bill accepted by R & co. in favour of F. Iyer, endorsed by him as a part payment of our claim from him for Rs. 975. The bill in payable at Bank of India and is due on 23.8.1980)			

Note : The due dates of individual bills for the month of Aug. & Sep. 1980 will be as under;

For the Month of August 1980

B/R No.	*B/P No.*	*Due on*	*Remarks*
1		5.8.80	Discounted
	102	10.8.80	Paid
4		18.8.80	Dishonoured
7		23.8.80	Collected

For the month of Sept. 1980

B/R No.	*B/P No.*	*Due on*	*Remarks*
2		7.9.80	Discounted
	101	5.9.80	Paid
	103	16.9.80	Paid
	104	19.9.80	Renewed on 17.9.80
5		23.9.80	Dishonoured
6		23.9.80	Endorsed but dishonoured

B/R No. 3 and B/P No. 105 and 106 are due after 30.9.1980.

			Dr.	Cr.
Aug. 10	Bill Payable (No. 102) A/c	Dr.	500	
	To Bank A/c			500
	(Being bill drawn by G. Godse met by our bankers)			
Aug. 18	C Corrimji	Dr.	1,225	
	To Bill Receivable (No. 4) A/c			1,225
	(Being bill endorsed by C. Corrimji dishonoured)			
Aug. 23	Bank A/c	Dr.	600	
	To Bill Receivable (No. 7) A/c			600
	(Being bill endorsed by F. Iyer collected by us)			
Sep. 5	Bill Payable (No. 101) A/c	Dr.	600	
	To Bank A/c			600
	(Being acceptance given to H. Holmes met by our bankers)			
Sep. 16	Bill Payable (No. 103) A/c	Dr.	1,700	
	To Bank A/c			1,700
	(Being acceptance given to J. Jack met by our bankers)			
Sep. 17	Bill Payable (No. 104) A/c	Dr.	970	
	Interest A/c	Dr.	30	
	To I & Co.			1,000
	(I & Co were requested to renew our acceptance due on 19.9.80 Entry passed for dishonour of the old bill and amount due for interest.			

Sep. 17	I & Co.	Dr.	1,000	
	To Bank A/c			500
	To Bill Payable (No. 106) A/c			500
	(Being a new bill accpted by us for the balance payable to I & Co. for 3 months due on 20.12.80)			
Sept. 23	E. Rao	Dr.	1,500	
	Discount A/c	Dr.	27	
	To Bill Receivable (No. 5) A/c			800
	To L Mehta			727
	(Being B/R No. 5 & 6 accepted by E. Rao are dishonoured. B/R No. 5 for Rs. 800 was retained till maturity, while B/R No. 6 was endorsed to our creditor L. Mehta for Rs. 700 in full settlement of his claim for Rs. 727)			
Sept. 30	Discount Allowed A/c	Dr.	102	
	To Sundry Parties			102
	(Being discount allowed as per the debit side totals of the discount column of cash book)			
Sept. 30	Sundry Parties	Dr.	112	
	To Discount earned A/c			112
	(Being discount allowed by Sundry Parties as per details given on the credit side of cash book)			

SETTLEMENT OF INDIVIDUAL ACCOUNTS

Debtors (*Total Rs. 7,037*)

1. *A. Ahmed Rs. 450* :

   Received on 2nd July B/R No. 1 for Rs. 430/- after allowing him discount of Rs. 20. The bill is got discounted on 3rd July for Rs. 420.

2. *B. Behram Rs. 787* :

   Received on 4th July B/R No. 2 for Rs. 500/-. Bill got discounted on 5th July for Rs. 480. *Balance due from him Rs. 287.*

3. *C Corrimji Rs. 1,225* :

   Received on 10th July B/R No. 4 for Rs. 1,225/-. Bill is dishonoured on 18-8-80. *Balance due from him Rs. 1,225/-* excluding interest noting, charges, returning charges etc., if any.

4. *D. Dawn Rs. 2100:*

B/R No. 3 received from him for Rs. 2,075 after allowing discount of Rs. 25. The bills fall due after 30th Sept. and as such represent due balance of Bill Receivable A/c.

5. *E. Rao Rs. 1,500.*

B/R No. 5 and B/R No. 6 for Rs. 800/ and Rs. 700/ respectively received from him. Bills are dishonoured on 23.9 80. *Balance due from him Rs. 1,500/-* excluding interest, noting charges, returning charges, etc.

6. *F. Iyer Rs. 975:*

B/R No. 7 received from him for Rs. 600. Bill is collected on 23.8.80. *Balance due from him Rs. 375.*

Note : Debtors outstanding are Rs. 3,387+B/R A/c balance Rs. 2,075+ cash received from debtors amount to Rs. 1,500 + discount allowed to them Rs. 75=opening balance of debtors for Rs. 7,037.

Creditors (*Total Rs. 6,382*)

7. *G. Godge Rs. 500:*

B/P No. 102 for Rs. 500 accepted by us and its payment is made on 10.8.80.

8. *H. Holmes Rs. 620:*

B/P No. 101 accepted for Rs. 600/, Rs. 20 discount allowed by him. Bill is paid on 5.9.80.

9. *I & Co. Rs. 985:*

B/P No. 104 accepted for Rs. 970, they allowed discount of Rs. 15. B/P got renewed on 17.9.80 by paying Rs. 500 in Cash and accepting B/P No. 106 for Rs. 500 (Rs. 470 for the balance and Rs. 30 towards interest payable). This bill is due after 30.9.80 and as such included in the balance of B/P A/c.

10. *J. Jack Rs. 1,750:*

B/P No. 103 accepted for Rs. 1700, he allowed discount of Rs. 50. Bill is paid on 16.9.80.

11. *K. Raman Rs. 1,800:*

B/P No. 105 accepted for Rs. 1,800. Bill is due after 30.9.80 and included in the balance of B/P A/c.

12. *L. Mehta Rs. 727:*

On 21st July B/R No 106 for Rs. 700 endorsed to him and he allowed discount of Rs 27. The said B/R is dishonoured on 23 9.80. *Balance due to him is Rs. 727.*

Note : Creditors outstanding Rs. 727+B/P A/c balance Rs. 2,300+Cash paid to them amount to Rs. 3,300 + discount allowed by them Rs. 85=opening balance of creditors Rs. 6,382 + Interest payable on renewal of the bill Rs. 30.

6

Sectional System of Self-Balancing Legdcrs (Simple Problems Only)

A

SELF-BALANCING LEDGERS

Problem 1. What do you understand by the system of self-Balancing Ledgers ?

Solution. In the big business firms, where a number of ledgers are kept, it is not easy for the accountant to trace book-keeping errors, if the combined balances of all the ledgers are taken down in the shape of a trial balance. In order to reduce to a minimum the trouble and time involved in locating the errors, generally the system of Self-Balancing or Sectional Balancing of ledgers is employed.

For a proper working of the Self-Balancing System, generally three types of ledgers are kept :

(1) Customers or Sales or Sold or Debtors Ledgers to keep the accounts of the customers to whom goods are sold on credit.

(2) Suppliers or Purchases or Bought or Creditors Ledgers containing the accounts of persons from whom goods are bought on credit.

(3) General Ledgers to keep all other accounts, *i.e.*, the Real and Nominal accounts and the Personal accounts which do not relate to trade Debtors and trade Creditors.

In order to make each ledger Self-Balancing, the ledger which contains debit entries should be provided with a credit entry also and *vice-versa*. To accomplish it, an extra account called 'General Ledger Adjustment Account' is opened in the Sold and Bought Ledgers. In the General Ledger two adjustment accounts are opened called the Sales Ledger Adjustment Account and Bought Ledger Adjustment Account. To these adjustment accounts in each ledger will be posted contra entries of those that are already recorded in the same ledger. These contra entries will be made in monthly or other periodical totals. By doing this, the double entry of every transaction is recorded in the same ledger and, therefore, a separate Trial Balance can be extracted from each ledger.

Self-Balancing of the Sales Ledger

All Debtors accounts are opened in the Sales Ledger and in order to make this ledger Self-Balancing, a General Ledger Adjustment Account is opened in this ledger. All entries appearing on the debit side of individual Debtors accounts (Opening Balance, Sales, B/R dishonoured, Interest and expenses charged, etc.) will be shown on the credit side of the above said adjustment account. Similarly, all credit entries of the individual Debtors accounts (Cash received, Discount allowed, Bills

accepted by them, Allowances given, Bad debts written off, etc.) will appear on the debit side of the General Ledger Adjustment Account.

Simultaneously, a Sales Ledger Adjustment Account is opened in the General Ledger to make it Self Balancing. All entries appearing on the debit side of the individual Debtors accounts are debited to this account and all credit entries in the individual Debtors accounts [illegible] credited to the Sales Ledger [illegible]
The Sales Ledger Adjustment [illegible] sents a summarised Debtors Account.

Self Balancing of Bought Ledger

All Creditors accounts are opened in the Bought Ledger and in order to make this ledger Self-Balancing, a General Ledger Adjustment Account is opened in the Bought Ledger. All entries appearing on the credit side of the individual Creditors accounts (Opening balance Purchase made, Interest payable, Expenses payable, Bills payable dishonoured, etc.) will be shown on the debit side of the above-said account. Similarly, all debit entries of the individual Creditors accounts (Cash paid, Discount received, Bills payable accepted, Returns outwards, etc.) [illegible] accounts are debited to the Bought Ledger Adjustment Account (in General Ledger). The Bought Ledger Adjustment Account in the General Ledger thus represents a summarised Creditors Account.

Self-Balancing of the General Ledger

As a result of the adjustments in the Sales Ledger Ajustment Account and the Bought Ledger Adjustment Account in the General Ledger, the General Ledger is Self-Balanced as regards the transactions relating to Trade Debtors and Trade Creditors. As regards other transactions, no extra adjustment is required, as both the debit and the credit in respect of each such transaction must have been made in different *accounts in the General Ledger itself.*

Note. When the goods are bought from and sold to the same person, as it does happen sometimes, two separate accounts should be opened—one in the Bought Ledger and the other in the Sold Ledger. At the time of settling the account with him, the smaller amount is transsferred to the greater.

Problem 2. Explain briefly the advantages of Self-Balancing System.

(I.I.B. Part I, October 1971)

Solution: The advantages of this system are:

(1) The accuracy of each ledger can be tested separately. If it is found that there is mistake or error in any one ledger, only that ledger and not the others need be checked.

(2) It helps towards a speedy detection of errors and thus facilitates preparation of Final Accounts soon after the completion of the period.

(3) It fixes the responsibility of each ledger-keeper, as to the balancing of ledgers under his charge, and the man responsible for the mistake can be called upon to work overtime to locate it.

(4) It helps to prevent or detect fraud on the part of those in charge of any of the ledger.

(5) The balances of trade Debtors and trade Creditors are readily available.

(6) It enables preparation of interim accounts without personal ledgers having to be balanced, and

(7) It provides a good method of office control. Efficient clerks can be easily distinguished from the inefficient.

Problem. 3 What is Sectional Balancing? Distinguish it from Self-Balancing Ledger.

Solution: Under the Sectional Balancing system, the correctness of the posting of the Sales and Bought legders is checked by preparing Total Debtors and Total Creditors Accounts in the General Ledger. The only difference between Self-Balancing ledgers and Sectional Balacing is that no adjustment accounts are prepared in the Sold or Bought Ledgers. These ledgers, therefore, cannot afford a Trial Balance. In the General Ledger, the Bought Ledger Adjustment Account is termed as 'Total Creditors Account' and the Sold Ledger Adjustment Account is termed as 'Total Debtors Account'. To check the accuracy of the Sales Ledger, the total of the individual balances of the customers are compared with the balance in the Total Debtors Account and the total of individual suppliers accounts balances is compared with the balance in the Total Creditors Account.

Double entry is complete only in the General Ledger.

Problem. 4 Set out the following particulars in the form of Sales Ledger Adjustment Account (in the General Ledger) on 31st December 1969 :

	Rs.
Credit sales	50,000
Discounts allowed	2,000
Cash received	35,000
Bills accepted	5,000
Bad debts written off	1,500
Bills dishonoured	500
Bad debts previously written off, recovered	600
Credit sales returns	1,500
Balance as on 1st January 1969	10,000
Cash sales	1,200

(*I.I B. Part I, May 1970*)

Solution :

IN THE GENERAL LEDGER
SALES LEDGER ADJUSTMENT ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1969		Rs.	1969		Rs.
Jan. 1	To Balance b/d	10,000	Dec. 31	By General Ledger Adjustment A/c : (in Sales Ledger)	
Dec. 31	To General Ledger Adjustment A/c : (in Sales Ledger)			Discount allowed	2,000
	Sales	50,000		Cash	35,000
	Bills dishonoured	500		B/R	5,000
				Bad Debts	*1,500*
				Sales Returns	1,500
			Dec. 31	By Balance c/d	15,500
		60,500			60,500

Working Hints :

(*a*) Cash sales and old bad debts recoverd will not appear in the *Sales Ledger Adjustment Account in the General Ledger.*

(*b*) Bills accepted means here that bills have been accepted by the debtors of the firm, *i.e., they are Bills Receivables.*

Problem 5. From the following particulars draw up a Sales Ledger Adjustment Account in the General Ledger :

	Rs.
Opening Balance *Dr.*	1,250
Opening Balance *Cr.*	30
Sales	3,720
Cash Sales	600
Cash received from debtors	2,005
Sales returns	317
Discount allowed	130
Bad Debts written off	371
Reserve for Bad Debts	500
Old Bad Debts recovered	30
Allowances	42
B/R received	130
B/R dishonoured	50
Closing credit balance	72

ution:

IN THE GENERAL LEDGER
SALES LEDGER ADJUSTMENT ACCOUNT

. Cr.

ate	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Balance b/d	1,250		By Balance b/d	30
	To General Ledger Adjustment A/c: (in Sales Ledger)			By General Ledger Adjustment A/c: (in Sales Ledger)	
	Sales	3,720		Cash received	2,005
	B/R dishonoured	50		Sales returns	31[illegible]
	To Balance c/d	72		Discount allowed	130
				Bad debts	371
				Allowances	42
				B/R received	130
				By Balance c/d	2,067
		5,092			5,092

Working Hints:

Cash Sales, Reserve for Bad Debts and old Bad Debts Recovered do not concern the Sales Ledger Adjustment Account.

Problem 6. The undermentioned particulars have been extracted from the books of Mr. A.

You are required to prepare the Sales Ledger Adjustment A/c as on 30th June 1973:

	Rs.
Balance as on 1st January 1973	55,842
Credit sales	98,602
Cash sales	53,250
Cash received from debtors	88,753
Discount allowed	480
Bills accepted	7,120
Returns inwards	5,43[illegible]
Bills receivable dishonoured	1,12[illegible]
Bad debts written off	3,8[illegible]
Amounts received against Bad debts written off last year	1[illegible]
Sundry charges debited to customers	[illegible]
Transfers to Bought ledger	

(*I.I B. Part I, Novembe*

Solution:

IN THE GENERAL LEDGER
SALES LEDGER ADJUSTMENT ACCOUNT

Dr. | | | | | *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1973		Rs.	1973		Rs.
Jan. 1	To Balance b/d	55,842	June 30	By General Ledger Adjustment A/c: (in Sales Ledger)	
June 30	To General Ledger Adjustment A/c: (in Sales Ledger)			Cash received	88,753
	Sales	98,602		Discount	840
	B/R dishonoured	*1,120*		*B/R Accepted*	*7,120*
	Sundry charges	378		Returns inwards	5,430
				Bad debts	3,890
				Transfer to Bought Ledger	100
			June 30	By Balance c/d	50,169
		1,55,942			1,55,942

Working Hints:

Cash Sales and amount received against Bad Debts written off last year will not be shown in this account.

Problem 7. In the General Ledger of Dinesh Company Ltd., prepare Sales Ledger Adjustment Account from the following particulars:

1975		Rs.
Jan. 1	Balance of Sundry Debtors	80,000
Dec. 31	Credit Purchases	*45,000*
	Credit Sales	1,96,000
	Received cash from Debtors	1,56,000
	Allowed discount	4,000
	Received Bills Receivable	30,000
	Returns Inwards	17,500
	Returns Outwards	6,000
	Rebate allowed to Debtors	5,500
	Bad Debts	9,000
	B.R. dishonoured	7,500

(*I.I.B. Part I, May 1976*)

Solution:

IN THE GENERAL LEDGER OF
DINESH COMPANY LTD.

Dr. SALES LEDGER ADJUSTMENT ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1975		Rs.	1975		Rs.
Jan. 1	To Balance b/d	80,000	Dec. 31	By General Ledger Adjustment A/c: (in Sales Ledger)	
Dec. 31	To General Ledger Adjustment A/c: (in Sales Ledger)			Cash received	1,56,000
	Sales 1,96,000			Discount allowed	4,000
	B/R dishonoured 7,500			B/R received	30,000
				Returns Inwards	17,500
				Rebate allowed	5,500
				Bad debts	9,000
			Dec. 31	By Balance c/d	61,500
		2,83,500			2,83,500

Working Hints:

Credit Purchases and Returns Outwards have not been considered, because they relate to Total Creditors Account.

Problem 8. The following information relating to the year 1976 has been gathered from the books of Auto Control Ltd.

	Rs.
Sales Ledger (debtors') balances-1st January 1976	44,510
Purchases Ledger (creditors') balances-1st January 1976	32,170
Receipts from customers (including Rs. 760 in respect of a debt written off in 1973)	5,46,420
Credit sales	5,81,270
Cash sales	50,000
Returns inwards	8,630
Returns outwards	4,250
Bad Debts written off	10,410
Discounts allowed by suppliers	2,510
Increase in provision for bad debts on 31st December 1975	1,240
Cash received from suppliers in respect of overpayment	480
Sales Ledger credit balances as on 31st December 1976	820

You are required to prepare Sales Ledger Adjustment Account as would appear in the general ledger.

(I.I.B. Part I, November 1977)

Problem 9. The following details were extracted from the books of a company for the six months ended 31st December 1967 :

			Rs.
July 1	Sales ledger balances total	...	37,000
	Provision for Doubtful Debts	...	2,500
Dec. 31	Sales ...	...	73,000
	Returns ...	...	700
	Cash received ...	...	70,000
	Bills accepted by customers ...	...	2,600
	Bills dishonoured ...	...	300
	Bad debts written off ...	...	600
	Discount allowed ...	...	1,500

Prepare an account to show the aggregate Sales Ledger balances outstanding on that day (*i.e.* Total Debtors A/c.)

(*I.I.B. Part I, May 1968*)

Solution:

IN THE GENERAL LEDGER
TOTAL DEBTORS ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1967		Rs.	1967		Rs.
July 1	To Balance b/d	37,000	Dec. 31	By Cash	70,000
Dec. 31	To Sales	73,000		By Bills Receivable	2,600
	To Bills dishonoured	300		By Discount	1,500
				By Returns	700
				By Bad bebts	600
			Dec. 31	By Balance c/d	34,900
		1,10,300			1,10,300

Working Hint:

Provision for Doubtful debts will not appear in this account.

Problem 10. From the following information and particulars, prepare a Sales Ledger Control Account to be maintained in the Nominal Ledger of a concern where self-balancing ledgers are kept:

		Rs.
Opening Balanee	*Dr.*	25,000
	Cr.	600
Sales during the year		62,400
Return outwards during the year		2,400
Cash received from customers		40,100
Discounts allowed this year		2,600
Return by customers during the year		6,340
Bad Debts written off		7,420
Reserve for bad debts created during the year		10,000
Reserve for bad debts at the beginning of the year		5,000
Bad Debts previously written off recovered in cash during the year		600
Allowance to customers		840
Bills receivable accepted by customers		2,600
Bills dishonoured		500
Closing Credit balance		1,440

(I I.B. Part I, April 1979)

Solution:

IN THE NOMINAL LEDGER
SALES LEDGER CONTROL ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/d	25,000	By Balance b/d	600
To Sales	62,400	By Cash	40,100
To Bills dishonoured	500	By Discounts allowed	2,600
To Balance c/d	1,440	By Returns by customers	6,340
		By Bad debts written off	7,420
		By Allowance to customers	840
		By Bills Receivable	2,600
		By balancing c/d (*Balancing figure*)	28,840
	89,340		89,340

Working Hints :

(*a*) Returns outwards during the year amounting to Rs. 2,400 are not to be entered in the Sales Ledger Control Account, since these represent purchases returned and as such relate to Purchases Ledger Control Account.

(*b*) The undernoted items will not appear in the Sales Ledger Control Account because they are the transactions relating to the Profit & Loss Account :

(*i*) Reserve for bad debts created during the year	Rs. 10,000
(*ii*) Reserve for bad debts at the begginning of the year	Rs. 5,000
(*iii*) Bad debts previously written off recovered in cash during the year	Rs. 600

Problem 11. Chavan keeps his 'Sale Ledger' upon the "Self-Balancing principles". From the following data, please prepare the necessary 'Adjustment Account' as on 31st January, 1965 :

1965		Rs.
Jan. 1	Total debtors balances on this day were	1,25,420
	Total goods sold to customers for the month	2,16,580
	Total goods returned by customers for the month	9,420
	Total cash received from the customers for the month	1,56,210
	Total discount allowed to customers for the month	9,680
	Total acceptances received from customers during the month	34,710
	Total acceptances dishonoured by customers during the month	5,420

(*I.I.B. Part I, February 1966*)

lution:

IN THE SALES LEDGER
GENERAL LEDGER ADJUSTMENT ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1965		Rs.	1965		Rs.
Jan. 31	To Sales Ledger Adjustment Account: (in General Ledger)		Jan. 1	By Balance b/d	1,25,420
	Cash Received	1,56,210	Jan. 31	By Sales Ledger Adjustment A/c: (in General Ledger)	
	Discount Allowed	9,680		Sales	2,16,580
	Bills Receivable	34,710		B/R (Dishonoured	5,420
	Returns Inwards	9,420			
Jan. 31	To Balance c/d	1,37,400			
		3,47,420			3,47,420

Problem. 12 From the following particulars extracted from the books of M/s Balanced-minded Ltd, which keeps accounts on self-balancing system, prepare the General Ledger Adjustment Accounts as would appear in the Sales Ledger and the Bought Ledger respectively :

	Rs.
Debtors as on 1st January, 1976	4,575
Creditors as on 1st January, 1976	5,490
Transactions for the year:	
Credit Purchases	2,050
Credit Sales	2,270
Returns Inwards	40
Returns Outwards	60
Cash received from customers	2,550
Discount allowed	45
Cash paid to suppliers	3,070
Discount received	67
Acceptances received from debtors	850
Acceptances given to creditors	1,200
B.R. dishonoured	120
B.P. dishonoured	300
Bad debts written off	250
Sundry charges debited to customers	35
Allowances from creditors	28

(*I.I B. Part I, May 1977*)

Solution:

IN THE SALES LEDGER OF
M/S BALANCED-MINDED LTD.
Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1976		Rs.	1976		Rs.
Dec. 31	To Sales Ledger Adjustment A/c: (in General Ledger)		Jan. 1	By Balance b/d	4,575
	Returns Inwards	40	Dec. 31	By Sales Ledger Adjustment A/c: (in General Ledger)	
	Cash received	2,550		Sales	2,270
	Discount allowed	45		B R. dishonoured	120
	Bills Receivables	850		Sundry Charges	35
	Bad debts	250			
Dec. 31	To Balance c/d	3,265			
		7,000			7,000

IN THE BOUGHT LEDGER OF
M/S BALANCED-MINDED LTD.

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1976		Rs.	1976		Rs.
Jan. 1	To Balance b/d	5,490	Dec. 31	By Bought Ledger Adjustment A/c: (in General Ledger)	
Dec. 31	To Bought Ledger Adjustment A/c: (in General Ledger)			Returns outwards	60
	Purchases	2,050		Cash paid	3,070
	B.P. dishonoured	300		Discount received	67
				Bills Payable	1,200
				Allowances	28
			Dec. 31	By Balance c/d	3,415
		7,840			7,840

Problem 13. From the following particulars prepare "General Ledger Adjustment Account" in Sales Ledger:

Due by: A.B. Rs. 170; B.C. Rs. 180; C.D. Rs. 195; E.F. Rs. 300.
Credit balance: B.G. Rs. 130; F.D. 30.

ne 2 Sold goods to A.B. Rs. 185.
Received from B.C. on account Rs. 100.

" 9 Drew a bill on A.B. Rs. 250 which he accepted payable at 3 months.

" 11 Returned goods to B.G. Rs. 30.

" 12 Sold goods to M.N. Rs. 200.

" 14 Received from C.D. Rs. 189 in full settlement of dues.

" 19 Sold goods to F.D. Rs. 150.

" 21 Received from E.F. Rs. 295 in full settlement.

" 22 Sold goods to E.F. for Rs. 250.

" 23 M.N. returned goods Rs. 50.

" 27 Received from A.B. Rs. 100 allowing him discount Rs. 5.

" 28 Sold goods to R.G. Rs. 200.
Received from E.F. Rs. 200 discount Rs. 3.

" 29 Received as advance from S.M. Rs. 300.

(I.I.B. Part I, November 1974)

Working ;

SUMMARY OF DEBTORS

Name of the Debtor	Opening Balance Dr.	Opening Balance Cr	Sales Dr.	Cash Received Cr.	B/R Accepted Cr.	Sales Returns Cr.	Discount allowed Cr.	Balance Dr.	Balance Cr.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
A B.	170		185	100	250		5	—	—
B C	180			100				80	—
C.D.	195			189			6	—	[illegible]
E F.	300		250	295 } 200 }			5 } 3 }	[illegible]	[illegible]
F.D.		30	150			50		[illegible]	[illegible]
M.N.			200					[illegible]	[illegible]
R.G.			200					[illegible]	[illegible]
S.M.				300				—	[illegible]
	845	30	985	1,184	250	50	[illegible]	[illegible]	[illegible]

Note : B G.'s account has not been taken into account, because he is a Creditor (Supplier of the goods) and not a Debtor. In the beginning, he has a credit balance and afterwards, also, the goods have been returned to him.

Solution :

IN THE SALES LEDGER
GENERAL LEDGER ADJUSTMENT ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
19...		Rs.	19 ..		Rs.
June 1	To Balance b/d	30	June 1	By Balance b/d	[illegible]
June 30	To Sales Ledger Adjustment A/c : (in General Ledger)		June 30	By Sales Ledger Adjustment Account : (in General Ledger)	
	*Cash received	1,184		Sales	[illegible]
	B/R accepted	250	June 30	By Balance c/d	[illegible]
	Sales returns	50			
	Discount allowed	19			
June 30	To Balance c/d	597			
		2,130			[illegible]

* Cash received includes Rs. 300 received in adve

Problem 14. M/s. Crown Chemists keep bought and sold ledgers on self balancing principles. From the following particulars, prepare General Ledger Adjustment Account in "Sold Ledger" and "Bought Ledger" :—

	Rs.
Sundry Debtors—1st January 1978	6,200
Sundry Creditors—1st Junuary 1978	2,500
Credit Purchases	10,300
Credit Sales	13,400
Cash received from Debtors	7,800
Returns inward	300
Acceptances given	4,000
Returns outward	250
Debtors acceptances dishonoured	500
Discount allowed	100
Bad debts written off	200
Creditors—31st December 1978	1,050
Bad debts written off previously, now received	500

(*I.I.B. Part I, November 1979*)

Solution :

IN THE SOLD LEDGER OF M/s. CROWN CHEMISTS

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1978		Rs.	1978		Rs.
Dec. 31	To Sales Ledger Adjustment A/c : (*In General Ledger*)		Jan. 1	By Balance b/d	6,200
	Cash received	7,800	Dec. 31	By Sales Ledger Adjustment A/c: (*In General Ledger*)	
	Returns inward	300		Sales	13,400
	Discount allowed	100		B/R dishonoured	500
	Bad debts written off	200			
	To Balance c/d	11,700			
		20,100			20,100

Note :

Bad Debts written off previously, now received amounting to Rs. 500 will not affect the Total Debtors for the period.

IN THE BOUGHT LEDGER OF M/s. CROWN CHEMEISTS

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1978		Rs.	1978		Rs.
Jan. 1	To Balance b/d	2,500	Dec. 31	By Bought Ledger Ajustment A/c: (*In General Ledger*)	
Dec 31	To Bought Ledger Adjustment A/c: (*In General Ledger*)			Bills payable	4,000
	Purchases	10,300		Returns outwards	250
				Cash paid (*Balancing figure*)	7,500
			Dec. 31	By Balance c/d	1,050
		12,800			12,800

Problem 15. In a business three Ledgers are kept in use, *viz*, (1) a Creditor's Ledger, (2) a Debtor's Ledger and (3) a General Ledger which are kept on the self-balancing system. The following is a summary of the transactions with the Debtors and Creditors of the business for the month of January 1979. Open the necessary Adjustment Accounts in the respective Ledgers :—

	Rs.
Debtors' Balance 1-1-1979	40,000
Creditors' Balance 1-1-1979	46,250
Credit Sales	24,500
Credit Purchases	11,250
Received cash from Debtors	19,500
Discount allowed to them	500
Paid cash to Creditors	24,690
Discount allowed by them	810
Received Bills Receivable	7,500
Bills Payable accepted	3,750
Returns Outwards	1,500
Returns Inwards	2,195
Allowances to Debtors	680
Allowances from Creditors	375
Bad Debts written off	1,125
Bills Receivable dishonoured	940

(*I.I.B. Part I, October 1980*)

Solution:

In the Creditors Ledger

GENERAL LEDGER ADJUSTMENT ACCOUNT

Dr.					*Cr.*
Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1979		Rs.	1279		Rs.
Jan. 1	To Balance b/d	46,250	Jan.	By Creditors Ledger Adjustment A/c : (*In General Ledger*)	
	To Creditors Ledger Adjustment A/c : (*in General Ledger*)			Cash paid	24,690
	Purchases	11,250		Discount earned	810
				B/P's accepted	3,750
				Returns outwards	1,500
				Allowances from them	375
			Jan. 31	By Balance c/d	26,375
		57,500			57,500

In the Debtors Ledger

GENERAL LEDGER ADJUSTMENT ACCOUNT

Dr.					*Cr.*
Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1979		Rs.	1979		Rs.
Jan.	To Debtors Ledger Adjustment A/c: (*In General Ledger*)		Jan. 1	By Balance b/d	40,000
	Cash Received	19,500	Jan.	By Debtors Ledger Adjustment A/c: (*In General Ledger*)	
	Discount allowed	500		Sales	24,500
	B/R's received	7,500		B/R's dishonoured	940
	Returns Inward	2,195			
	Allowances to them	680			
	Bad Debts (*written off*)	1,125			
Jan. 31	To Balance c/d	33,940			
		65,440			65,440

In the General Ledger

Dr. DEBTORS LEDGER ADJUSTMENT ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1979		Rs.	1979		Rs.
Jan. 1	To Balance b/d	40,000	Jan.	By General Ledger Adjustment A/c (*in Debtors Ledger*)	
	To General Ledger Adjustment A/c: (*in Debtors Ledger*)			Cash received	19,500
	Sales	24,500		Discount allowed	500
	B/R's dishonoured	940		B/R's received	7,500
				Returns Inwards	2,195
				Allowance to Debtors	680
				Bad Debts (*written off*)	1,125
			Jan. 31	By Balance c/d	33,940
		65,440			65,440

In the General Ledger

Dr. CREDITORS LEDGER ADJUSTMENT ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1979		Rs.	1979		Rs.
Jan.	To General Ledger Adjustment A/c: (*in Creditors Ledger*)		Jan. 1	By Balance b/d	46,250
	Cash paid	24,690		By General Ledger Adjustment A/c : (*in Creditors Ledger*)	
	Discount earned	810		Purchases	11,250
	B/P's accepted	3,750			
	Returns Outwards	1,500			
	Allowance from Creditors	375			
Jan. 31	To Balance c/d	26,375			
		57,500			57,500

Problem 16. The following particulars extracted from the books of Bombay (Fort) branch of New Activity Bank for the month of May 1982.

	Rs.
Balance as on 30th April 1982	14,08,756
Cash deposited by the customers	28,493
Cash withdrawn by the customers	69,008
Local cheques on other banks deposited by the customers	73,444
Cheques deposited, drawn on the Bank's other local branches	11,821
Cheques issued by the customers presented through the clearing	30,638
Local clearing cheques returned back by other banks	4,000
Cheques presented by other branches	5,296
Interest credited	35,609
Commission and other charges recovered	1,470

Preparing the Savings Bank Ledger Control Account.

(I.I.B. Part I, November 1982)

Solution:

SAVINGS BANK LEDGER CONTROL ACCOUNT
OF NEW ACTIVITY BANK, BOMBAY (FORT) BRANCH
for the month ending May, 1982

Particulars	*Debit (Withdrawals)*	*Credit (Deposits)*	*Dr. or Cr*	*Balance*
By Balance as on 30-4-1982		14,08,756	Cr.	14,08,756
By Cash deposited by the customers		28,493	Cr.	14,37,249
To Cash withdrawn by the customers	69,008		Cr.	13,68,241
By Local cheques on other banks deposited by the customers		73,444	Cr.	14,41,685
By Cheques deposited, drawn on the Bank's others local branches		11,821	Cr.	14,53,506
To Cheques issued by the customers presented through the clearing	30,638		Cr.	14,22,868
To Local clearing cheques returned back by other banks	4,000		Cr.	14,18,868
To Cheques presented by other branches	5,296		Cr.	14,13,572
By Interest credited		35,609	Cr.	14,49,181
To Commission and other charges recovered	1,470		Cr.	14,47,711
	1,10,412	15,58,123		

7

Consignment and Joint Venture Accounts—Accounts Current—Investment and Share Transactions

A

CONSIGNMENT ACCOUNTS

Problem 1. Write a short note on Consignment.

(*I.I.B. Part I, November 1970*)

Solution. If goods are sent by one person to another, who sells them on behalf of the first person, the transaction is known as Consignment. The person who sends such goods is known as the Consignor and the person to whom the goods are sent is known as the Consignee. To the principal or the consignor, the goods thus sent out would be known as 'Outward Consignments', whereas to the agent or consignee, they would be known as 'Inward Consignments'.

The Consignee is remunerated for his services by payment of commission, which is usually calculated as a fixed percentage of gross sale proceeds. Where the consignee, in addition to selling the goods, undertakes the risk of bad debts arising out of credit sales, he is paid additional commission known as '*del-credere commission*'.

It is usual for the consignor to make out an invoice called a '*Pro-forma Invoice*' and send it to the consignee alongwith the consignment. Such a invoice contains the particulars as regards description, quality, quantity, price of the goods, marking, packing, details of any expenses incurred and also, sometimes, the mode of marketing.

Problem 2. Explain briefly : Account Sales.

(*I.I B. Part I, May 1975*)

Solution. The statement of account submitted by the Consignee to his Consignor, containing detailed particulars of sales made, expenses incurred for receiving and selling the goods, his commission, advance remittances if any made, remittances, if any made now or the net amount due to the consignor, is described as '*Account Sales*'.

Problem 3. Explain how the consignment transactions are recorded in the books of the consignor and the consignee.

Solution. To ascertain the Net Profit or Loss from individual outward consignments, the consignor keeps separate account for each such consignment and the consignment account, is titled as "Consignment to.........Account". It is a nominal account and its balance is transferred to the general Profit & Loss Account.

ACCOUNTING TREATMENT OF CONSIGNMENT

Transactions	*In the Books of the Consignor*		*In the Books of the Consignee*	
	A/c to be debited	*A/c to be credited*	*A/c to be debited*	*A/c to be credited*
When goods are sent.	Consignment	Goods sent on consignment	—	—
When the consignor incurs expenses.	Consignment	Cash/Bank	—	—
Advance remittance by consignee in cash, by cheque, or by accepting bill.	Cash/Bank/Bills Receivable	Consignee	Consignor	Cash/Bank/Bills Payable
When goods are returned by the Consignee.	Goods sent on consignment	Consignment	—	—
When goods are sold by the Consignee.	Consignee	Consignment	Cash/Bank/ Consignment Debtors	Consignor
Expenses incurred by the Consignee.	Consignment	Consignee	Consignor	Cash/Bank
Cash collected by the Consignee from Consignment Debtors.	—	—	Cash/Bank	Consignment Debtors
Bad debts from Consignment Debtors (*when del-credere commission is not allowed*).	Consignment	Consignee	Consignor	Consignment Debtors
Bad debts from Consignment Debtors (*when del-credere commission is allowed*).	—	—	Bad debts or Commission	Consignment Debtors
When goods are taken by the consignee.	Consignee	Consignment	Purchases	Consignor
For commission payable to consignee.	Consignment	Cogsignee	Consignor	Commission
Remittances received from consignee.	Cash/Bank/Bills Receivable	Consignee	Consignor	Cash/Bank/Bills Payable

For Closing Stock lying with the Consignee.	Consignment stock	Consignment	—	—
For Normal loss of goods.	—	—	—	—
For Abnormal loss of goods.	Abnormal Loss	Consignment	—	—
When Abnormal loss is recoverable from Insurance company.	Insurance Co.	Abnormal Loss	—	—
When abnormal loss is irrecoverable.	Profit & Loss	Abnormal Loss	—	—
When claim is recovered by consignee.	Consignee	Abnormal Loss	Cash/Bank	Consignor
If there is profit on consignment.	Consignment	Profit & Loss	—	—
If there is loss on consignment.	Profit & Loss	Consignment	—	—
For closing 'Goods sent on consignment account'	Goods sent on consignment'	Trading	—	—

Problem 4. How will you treat the closing stock under the following circumstances :

(1) Stock on consignment (outward) ; and
(2) Stock on consignment (inward).

(I.I.B. Part I, November 1970)

Solution. (1) **Stock on Consignment (Outward) :** When the consignment account is closed, the value of closing stock, if any, must be taken into account, so that the Balance Sheet of the Consignor may show his true position and the Consignment Account may also show the correct profit.

The valuation of stock on consignment (outward) is done either at market price or cost price, whichever is less. However, cost price includes the rateable proportion of all those non-recurring expenses incurred by the consignor as well as by the consignee, which includes Cartage, Freight, Insurance, etc. Expenses incurred after the goods are brought to the godown or shop of the consignee are not to be considered.

The cost thus ascertained is the value of Consignment Stock, if it is less than the market price of such unsold stock.

(2) **Stock on Consignment (Inward) :** The unsold stock with the consignee is not his own stock, therefore, he does not record the same in his books. He simply maintains a memorandum record of such consignment stock with him.

Problem 5. Give short note on Goods in transit : Goods on Consignment.

(I.I.B. Part I, May 1969)

Solution. Goods in transit

The problem of Goods in transit arises in 'Branch Accounts'. At the time of balancing, it may happen that goods may have been supplied by the Head Office to a Branch by loading the same on a rail or truck, but the same might not have reached the destination before or on the date of balancing the records. The result of this will be that the Branch will not credit the Head Office before the date of balancing, although the Head Office has debited the Branch.

In such circumstances, an adjusting entry is made in the books of the Head Office as under :

JOURNAL ENTRY FOR GOODS IN TRANSIT

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
	Goods in transit A/c Dr. To Branch A/c (Being the value of goods sent to......... branch on......... (date), but credited by them on.........(date of responding the entry by the branch)			

The balance of the 'Branch Account' in the Head Office books will now tally with the balance of the 'Head Office Account' in the Branch books.

The 'Goods in transit' account is shown as an Asset in the Head Office Balance Sheet.

The amount of 'Goods in transit' account is transferred to the branch account at the commencement of the next period, by passing reverse entry, *i.e.*, 'the Branch' account is debited and 'Goods in transit' account is credited.

Goods on Consignment

When goods are sent to the consignee, it is not treated as sales and as such 'consignee' is not treated as Debtor.. Hence on sending the goods, no sales account is credited, but the amount is credited to Goods sent on consignment account, as shown hereunder :

JOURNAL ENTRY

Date	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
	Consignment A/c Dr. To Goods sent on consignment A/c (Being Goods sent to......(consignee) to be sold on our account)			

The balance in Goods sent on consignment account is transferred to Purchases Account in case of trading concerns and to Trading Account in case of manufacturing concerns, *i.e.* Goods sent on Consignment Account is debited and Purchases/Trading Account (as the case may be) is credited.

Problem 6. What adjustment entries are passed when the goods are consigned at invoice price, which is higher than the cost price ?

Solution. Somtimes, the consignor sends to the consignee the *pro-forma invoice* charging goods at higher price. Such a price is called as 'Invoice price' or 'Selling price'. The difference between the invoice price and the cost price of the good, is known as *loading*.

In order to ascertain correct profit or loss on consignment, adjustment entries are passed with regard to the following items recorded at the invoice price :

(1) Consignment Stock at the beginning:

(*a*) Entering in the consignment account at invoice price:

Consignment A/c Dr.
To Consignment Stock A/c

(*b*) To remove loading from the opening stock:

Stock Suspense A/c Dr.
To Consignment A/c

(2) Goods sent on Consignment:

(*a*) On goods being sent at invoice price:

Consignment A/c Dr.
To Goods Sent on Consignment A/c

(*b*) To remove the loading from the goods sent on consignment:

Goods sent on Consignment A/c Dr.
To Consignment A/c

(3) Goods returned by the Consignee:

(*a*) On goods being returned at invoice price:

Goods sent on Consignment A/c Dr.
To Consignment A/c

(b) To remove the loading in goods returned:
Consignment A/c Dr.
To Goods sent on Consignment A/c

(4) Consignment Stock at the end:

(a) For the value of unsold stock at invoice price:
Stock on Consignment A/c Dr.
To Consignment A/c

(b) To remove the loading in Closing Stock:
Consignment A/c Dr.
To Stock Suspense A/c

Problem 7. If consignment stock is destroyed or damaged, how is it accounted for ?

Solution. Goods sent on consignment may be lost, destroyed or damaged. The entries to adjust the loss of goods in the books of the Consignor will depend upon the type of loss, which may be either Normal Loss or Abnormal Loss.

(A) Normal Loss. Such a loss is due to the nature of the goods consigned, which may be due to loading and unloading, evaporation, drying, etc. This type of loss is inherent in the goods and is normal.

Such loss is allowed at the time of Stock left unsold with the consignee.

Normal loss forms the part of cost, and as such the value of stock on consignment is increased proportionately due to such a loss. The total cost of the goods is considered to be for the quantity sent *less* the normal loss.

Consignment Stock is valued as under :

$$\frac{\text{Total cost of goods sent} + \text{Non-recurring expenses}}{\text{Total quantity sent} - \text{Normal loss in units}} \times \text{Units of stock on hand}$$

No journal entry is passed for recording Normal Loss of goods.

(B) Abnormal Loss. Such a loss may arise due to mischief, bad-luck and inefficiency. Loss of goods due to the theft, flood, fire, war, earth-quake, riots, insects, breakage, etc. is of abnormal nature.

Abnormal loss has nothing to do with a particular consignment. It is, therefore, transferred to general Profit & Loss account, so that the profitability of any particular consignment is not affected.

The value of Abnormal Loss is calculated in the same way as the Stock on Consignment, *i.e.*, cost *plus* proportionate non-recurring expenses.

Journal Entries for Abnormal Loss:

(1) When the loss occurs:
Abnormal Loss A/c Dr.
To Consignment A/c

(2) If the loss is irrecoverable:

Profit & Loss A/c	Dr.
To Abnormal Loss A/c	

(3) If the stock is insured and the loss is recoverable in full:

Insurer A/c	Dr.
To Abnormal Loss A/c	

(4) If the loss is party recoverable:

Insurer A/c	Dr.
Profit & Loss A/c	Dr.
To Abnormal Loss A/c	

Problem 8. *Shri Kansiner consigned on 15th December 1976, 300* cycles to Shri Kansini, who sent to the former on 31st March 1977, an Account Sales giving the following particulars :

		Rs.	Rs.
Sale Proceeds:			
28.2.77	250 Cycles at Rs. 400		1,00,000
31.3.77	50 Cycles at Rs. 360		18,000
			1,18,000
Less : Expenses :			
29.12.76	Port and duty charges	14,400	
31.3.77	Storage and Carriage charges	8,200	
31.3.77	Commission on Sales (at 5%+1% Del Credere)	7,080	29,680
			88,320
Less : Bill accepted on 31.12.1976			75,000
Balance—draft enclosed			13,320

You are required to show the relevent entries in the ledger account of Shri Kansiner in the books of Shri Kansini.

(I I.B. Part I, November 1977)

Solution:

Ledger Accounts in the Books of Shri Kansini :

SHRI KANSINER's ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1976		Rs.	1976		Rs.
Dec. 29	To Bank A/c (Port & Duty charges)	14,400	Dec. 31	By Balance c/d	89,400
Dec. 31	To Bills Payable	75,000			
		89,400			89,400
1977		Rs.	1977		Rs.
Jan. 1	To Balance b/d	89,400	Feb. 28	By Bank A/c (Sale of 250 cycles @ Rs. 400 each)	1,00,000
Mar. 31	To Bank A/c (Storage and carriage charges)	8,200	Mar. 31	By Bank A/c (Sale of 50 cycles @ Rs. 360 each)	18,000
Mar. 31	To Commission A/c : (at 5% on the sale proceeds of Rs. 1,18,000) Rs. 5,900 (at 1% on the sale proceeds of Rs. 1,18,000) Rs. 1,180	7,080			
Mar. 31	To Bank (Balance remitted by bank draft)	13,320			
		1,18,000			1,18,000

Note. It is assumed that the accounting year of Shri Kansini ends on 31st December every year.

Problem 9. F. Bros. shipped goods to H. Bros. their agents on 31st September and sent therewith a proforma invoice for Rs. 9,100 (goods Rs. 9,000, expenses Rs. 100). On 20th October, H Bros. sent an Account Sales, from which it appeared that a portion of the goods had realised Rs. 7,200; and deducting expenses Rs. 180, and commission, Rs. 400, he enclosed a draft at three months for the balance. The stock remaining unsold amounted, at invoice price plus expenses, Rs. 3,600. On 2nd November he sent another account sales, which showed that the balance of the consignment had realised Rs. 5,700; which, less Rs. 150 expenses and Rs. 200 commission, he remitted by a three months' draft.

Show how the above transactions should appear in the books of F. Bros. as on 31st December.

[*I.I.B. Part I, May 1969*]

Solution:

In the books of F. Bros.

JOURNAL ENTRIES

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
19...			Rs.	Rs.
Sept. 1	Consignment A/c Dr. To Goods sent on consignment A/c (Being goods sent on consignment to H. Bros, the agent)		9,000	9,000
Sept. 1	Consignment A/c Dr. To Cash A/c (Being expenses incurred on goods sent on consignment to H. Bros.)		100	100
Oct. 20	H. Bros. Dr. To Consignment A/c (Being gross proceeds of a portion of the goods sold by H. Bros. as per their Account Sales)		7,200	7,200
Oct. 20	Consignment A/c Dr. To H. Bros. (Being expenses incurred by the consignee)		180	180
Oct. 20	Consignment A/c Dr. To H. Bros. (Being the commission payable to the consignee)		400	400

Solution:

Ledger Accounts in the Books of Shri Kansini :

SHRI KANSINER's ACCOUNT

Dr.					*Cr.*
Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1976		Rs.	1976		Rs.
Dec. 29	To Bank A/c (Port & Duty charges)	14,400	Dec. 31	By Balance c/d	89,400
Dec. 31	To Bills Payable	75,000			
		89,400			89,400
1977		Rs.	1977		Rs.
Jan. 1	To Balance b/d	89,400	Feb. 28	By Bank A/c (Sale of 250 cycles @ Rs. 400 each)	1,00,000
Mar. 31	To Bank A/c (Storage and carriage charges)	8,200	Mar. 31	By Bank A/c (Sale of 50 cycles @ Rs. 360 each)	18,000
Mar. 31	To Commission A/c : (at 5% on the sale proceeds of Rs. 1,18,000) Rs. 5,900; (at 1% on the sale proceeds of Rs. 1,18,000) Rs. 1,180	7,080			
Mar. 31	To Bank (Balance remitted by bank draft)	13,320			
		1,18,000			1,18,000

Note. It is assumed that the accounting year of Shri Kansini ends on 31st December every year.

Problem 9. F. Bros. shipped goods to H. Bros. their agents on 31st September and sent therewith a proforma invoice for Rs. 9,100 (goods Rs. 9,000, expenses Rs. 100). On 20th October, H Bros. sent an Account Sales, from which it appeared that a portion of the goods had realised Rs. 7,200 ; and deducting expenses Rs. 180, and commission, Rs. 400, he enclosed a draft at three months for the balance. The stock remaining unsold amounted, at invoice price plus expenses, Rs. 3,600. On 2nd November he sent another account sales, which showed that the balance of the consignment had realised Rs. 5,700 ; which, less Rs. 150 expenses and Rs. 200 commission, he remitted by a three months' draft.

Show how the above transactions should appear in the books of F. Bros. as on 31st December.

[I.I.B. Part I, May 1969]

Solution:

In the books of F. Bros.

JOURNAL ENTRIES

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
19...			Rs.	Rs.
Sept. 1	Consignment A/c Dr.		9,000	
	To Goods sent on consignment A/c			9,000
	(Being goods sent on consignment to H. Bros., the agent)			
Sept. 1	Consignment A/c Dr.		100	
	To Cash A/c			100
	(Being expenses incurred on goods sent on consignment to H. Bros.)			
Oct. 20	H. Bros. Dr.		7,200	
	To Consignment A/c			7,200
	(Being gross proceeds of a portion of the goods sold by H. Bros. as per their Account Sales)			
Oct. 20	Consignment A/c Dr.		180	
	To H. Bros.			180
	(Being expenses incurred by the consignee)			
Oct. 20	Consignment A/c Dr.		400	
	To H. Bros.			400
	(Being the commission payable to the consignee)			

Date	Particulars		Rs.	Rs.
19...				
Oct. 20	Bills Receivable A/c	Dr.	6,620	
	To H. Bros.			6,620
	(Being a draft duly accepted by the consignee for a period of 3 months due on Jan. 23 next year received for the balance due from him)			
	Note: There will be no entry for the stock lying with the Consignee, because this is to be adjusted only at the time of preparation of final accounts, or at the time of receiving the final statement of the goods sold by the consignee.			
Nov. 2	H. Bros.	Dr.	5,700	
	To Consignment A/c			5,700
	(Being the gross proceeds of the balance of the goods sold by H. Bros. as per their Account Sales)			
Nov. 2	Consignment A/c	Dr.	150	
	To H. Bros.			150
	(Being the expenses incurred by the consignee)			
Nov. 2	Consignment A/c	Dr.	200	
	To H. Bros.			200
	(Being the commission payable to the consignee)			
Nov. 2	Bills Receivable A/c	Dr.	5,350	
	To H. Bros.			5,350
	(Being a draft duly accepted by the consignee for a period of 3 months due on Feb. 5, 19... received for the balance due from him)			
Dec. 31	Goods sent on consignment A/c	Dr.	9,000	
	To Trading A/c			9,000
	(Being the credit balance of the goods sent on consignment account transferred to the Trading Account)			

(b) P. TSAI's A/C

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Consignment to Singapore A/c (Sale of 150 machines)	66,000	By Bills Receivable A/c.	40,000
To Consignment to Singapore A/c (Stock taken over)	19,800	By Consignment to Singapore A/c (Freight and Custom duty)	6,000
		By Consignment to Singapore A/c (Commission)	14,370
		By Balance c/d *(amount receivable)*	25,430
	85,800		85,800

Working Notes :

1. Valuation of stock taken over by the consignee:

	Rs.
Cost price of 50 machines at Bombay (@ Rs. 300 each)	15,000
Pro-rata freight for 50 machines (on 200 machines Rs. 4,000)	1,000
Pro-rata Custom duty for 50 machines (on 200 machines Rs. 2,000)	500
Landed Cost of machines at Singapore	16,500
Plus : 20% of Landed cost	3,300
	19,800

Each machine costs Rs. 396.

2. Calculation of Consignee's Commission:

	Rs.
Sale of 150 machines @ Rs. 440 each	
15% of Rs. 400 per machine (Rs. 60 × 150 machines)	9,000
40% of Rs. 40 per machine (Rs. 16 × 150 machines)	2,400
Stock of 50 machines taken over @ Rs. 396 each	
15% of Rs. 396 per machine (Rs. 59.40 × 50 machines)	2,970
	14,370

Problem 11. Roy of Calcutta sends 100 sewing machines on consignment to Malik of Patna. The cost of each machine is Rs. 130 but the invoice price is at the rate of Rs. 160 each. Roy spends Rs. 400 on

packing and despatch. Malik receives the consignment and immediately accepts Roy's draft for Rs. 8,000. Subsequently, Malik informs Roy that 80 machines have been sold at Rs. 175 each. Expenses paid by Malik are : Freight Rs. 600 (Calcutta to Patna) ; Godown rent Rs. 50 ; and Insurance Rs. 100. Malik is entitled to a commission of 6 per cent on sales and 1½ per cent as del credere commission.

Give Journal entries with narration in the books of Roy.

(I.I.B. Part I, April 1950)

Solution:

IN THE BOOKS OF ROY
JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
1.	Consignment to Patna A/c Dr. To Goods sent on consignment A/c (Being 100 sewing machines sent on consignment to Malik of Patna at the invoice price of Rs. 160 each)		16,000	16,000
2.	Consignment to Patna A/c Dr. To Cash A/c (Being expenses incurred for the packing and despatch of goods sent on consignment to Patna)		400	400
3.	Bills Receivable A/c Dr. To Malik (Being a Bill drawn on Malik, received duly accepted by him)		8,000	8,000
4.	Malik Dr. To Consignment to Patna A/c (Being the sale of 80 machines by the consignee @ Rs. 175 each)		14,000	14,000
5.	Consignment to Patna A/c Dr. To Malik (Being the expenses incurred by the consignee : Freight Rs. 600, Godown rent Rs. 50, Insurance Rs. 100)		750	750

			Dr. (Rs.)	Cr. (Rs.)
6.	Consignment to Patna A/c To Malik (Being commission @ 6% and del-credere commission @ $1\frac{1}{2}$% payable to Malik on the sale proceeds of Rs. 14,000)	Dr.	1,050	1,050
7.	Consignment stock A/c To Consignment to Patna A/c (Being value of stock on hand with the Consignee valued at Invoice price plus a proportionate amount of non-recurring expenses)	Dr.	3,400	3,400
8.	Goods sent on consignment A/c To Consignment to Patna A/c (Being the excess invoice price over cost price @ Rs. 30 per sewing machine on 100 machines unloaded)	Dr.	3,000	3,000
9.	Consignment to Patna A/c To Stock suspense A/c (Being excess invoice price over cost price of unsold stock @ Rs. 30 per sewing machines on 20 machines)	Dr.	600	600
10.	Consignment to Patna A/c To Profit & Loss A/c (Being Profit on consignment to Patna transferred to the general Profit & Loss account)	Dr.	1,600	1,600
11.	Goods sent on consignment A/c To Trading A/c (Being the actual cost of goods sent on consignment transferred to Trading account)	Dr.	13,000	13,000

Workings (for entry 7):

		Rs.
20 Sewing machines @ Rs. 160 each		3,200
Add: 20% of the expenses:		
Packing & despatch	400	
Freight	600	200
		3,400

Workings:

Calculation of Profit on consignment to Patna:

Dr. CONSIGNMENT TO PATNA ACCOUNT *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
1.	To Goods sent on consignment A/c	16,000	4.	By Malik (Sales proceeds)	14,000
2.	To Cash (expenses)	400	7.	By Consignment stock A/c	3,400
5.	To Malik (expenses)	750	8.	By Goods sent on consignment A/c	3,000
6.	To Malik (commission)	1,050			
9.	To consignment stock suspense A/c	600			
10.	To Profit & Loss A/c (*Balancing figure*)	1,600			
		20,400			20,400

Problem 12. A of Ahmedabad consiged to B of Bombay 100 cases of goods which cost him Rs. 50 per case. He incurred Rs. 60 for Railway freight, Rs. 20 for Carriage and Rs. 50 for Packing. Some of the cases were damaged in transit and insurance claim made was settled for Rs. 200, A agreeing to accept the damage. The damaged goods were sold for Rs. 500.

B took delivery of 95 cases only. He spent Rs. 70 for Cartage, Godown rent, etc., and sold the consignment for Rs. 60 per case. He sent the sale proceeds to A, after deducting expenses and his commission at 5%.

Show the Consignment account and B's account in A's books.

(*I.I.B. Part I, May 1967*)

Solution:

Ledger Accounts in the Books A

Dr. CONSIGNMENT TO BOMBAY ACCOUNT *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Goods sent on Consignment A/c (100 cases @ Rs. 50 each)		5,000	By Insurance Company	200
To Cash :	Rs.		By Cash : (Sale of damaged goods)	500
Railway freight	60		By B : (Sale proceeds of 95 cases @ Rs. 60 each)	5,700
Carriage	20			
Packing	50	130		
Total c/fd		5,130	Total c/fd	6,400

Total b/fd	5,130	Total b/fd	6,400
To B (Cartage, Godown rent, etc.)	70		
To B (5% commission on the sale proceeds of Rs. 5,700)	285		
To Profit & Loss A/c (Profit)	915		
	6,400		6,400

B's ACCOUNT

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Consignment to Bombay A/c (Sale proceeds)	5,700	By Consignment to Bombay A/c (Expenses)	70
		By Consignment to Bombay A/c (Commission)	285
		By Bank (Remittance)	5,345
	5,700		5,700

GOODS SENT ON CONSIGNMENT ACCOUNT

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Trading A/c	5,000	By Consignment to Bombay A/c (100 cases @ Rs. 50 each)	5,000
	5,000		5,000

Problem 13. H. Ltd. forwarded on 1st July 1972, 100 bicycles to B of Bombay at an invoice price of Rs. 200, the cost of each cycle being Rs. 150. It paid Rs. 1,000 for freight and insurance. On receiving the consignment B accepted a draft for 3 months drawn by H for Rs. 10,000. B paid Rs. 400 as rent and Rs. 250 as further expenses. By 31st December 1972 B had disposed of 80 bicycles at Rs. 205 each. B charges 6 per cent as commission.

Show ledger accounts in the books of H. Ltd. who closes its accounts on 31st December.

(I.I.B. Part I, May 1973)

Solution:

Ledger Accounts in the Books of H. Ltd.

CONSIGNMENT TO BOMBAY ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1972		Rs.	1972		Rs.
July 1	To Goods sent on consignment A/c	20,000	Dec. 31	By B (Sale Proceeds)	16,400
July 1	To Cash (Expenses)	1,000	Dec. 31	By Consignment stock A/c	4,200
July 1	To B (Expenses)	650	Dec. 31	By Goods sent on consignment A/c	5,000
Dec. 31	To B (Commission)	984			
Dec. 31	To Consignment stock suspense A/c	1,000			
Dec. 31	To Profit & Loss A/c (*Balancing figure*)	1,966			
		25,600			25,600

GOODS SENT ON CONSIGNMENT ACCOUNT

1972		Rs.	1972		Rs.
Dec. 31	To Consignment to Bombay A/c (Difference between Invoice value and cost)	5,000	July 1	By Consignment to Bombay A/c (Invoice price)	20,000
Dec. 31	To Trading A/c	15,000			
		20,000			20,000

Dr. **B's ACCOUNT** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1972		Rs.	1972		Rs.
Dec. 31	To Consignment to Bombay A/c (Sales proceeds)	16,400	July 1	By Bills Receivable A/c	10,000
			July 1	By Consignment to Bombay A/c: Rent Rs. 400, Expenses Rs. 250	650
			Dec. 31	By Consignment to Bombay A/c (Commission)	984
			Dec. 31	By Balance c/d (*Amount receivable*)	4,766
		16,400			16,400

BILLS RECEIVABLE ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
1972		Rs.	1972		Rs.
July 1	To B	10,000	Oct. 4	By Cash	10,000
		10,000			10,000

Workings:

JOURNAL ENTRIES IN THE BOOKS OF H. Ltd.

Date	Particulars	L.F.	Debit Amount	Credit Amount
1972			Rs.	Rs.
July 1	Consignment to Bombay A/c Dr.		20,000	
	To Goods sent on consignment A/c			20,000
	(Being 100 cycles sent on consignment to B of Bombay at the invoice price of Rs. 200 each cycle)			
July 1	Consignment to Bombay A/c Dr.		1,000	
	To Cash A/c			1,000
	(Being expenses incurred on the consignment of goods to Bombay)			

1972			Rs.	Rs.
July 1	Bills Receivable A/c	Dr.	10,000	
	To B			10,000
	(Being a bill drawn on B, received duly accepted by him for a period of 3 months, due on 4th October, 1972)			
July 1	Consignment to Bombay A/c	Dr.	650	
	To B			650
	(Being expenses incurred by the consignee—Rent Rs. 400 and Expenses Rs. 250)			
Oct. 4	Cash A/c	Dr.	10,000	
	To Bills Receivable A/c			10,000
	(Being the Bills Receivable met on the due date)			
Dec. 31	B	Dr.	16,400	
	To Consignment to Bombay A/c			16,400
	(Being the sale proceeds of 10 bicycles @ Rs. 205 each)			
Dec. 31	Consignment to Bombay A/c	Dr.	984	
	To B			984
	(Being commission payable to B @ 6% on the sale proceeds of Rs. 16,400)			
Dec. 31	Consignment Stock A/c	Dr.	4,200	
	To Consignment to Bombay A/c			4,200
	(Being value of stock on hand with the consignee valued at invoice price plus a proportionate amount of non-recurring expenses as detailed here below : 20 Cycles @ Rs. 200 each Rs. 4,000; *Add* 20% of expenses amounting to Rs. 1,000 Rs. 200)			
Dec. 31	Goods Sent on Consignment A/c	Dr.	5,000	
	To Consignment to Bombay A/c			5,000
	(Being the excess of invoice price over cost price @ Rs. 50 per cycle on 100 bicycles unloaded)			

1972		Rs.	Rs.
Dec. 31	Consignment to Bombay A/c Dr.	1,000	
	To Consignment stock suspense A/c		1,000
	(Being the excess of invoice value over cost price of unsold stock @ Rs. 50 per cycle on 20 cycles adjusted)		
Dec. 31	Consignment to Bombay A/c Dr.	1,966	
	To Profit & Loss A/c		1,966
	(Being profit on Bombay Consignment transferred to the general Profit & Loss account)		
Dec. 31	Goods Sent on Consignment A/c Dr.	15,000	
	To Trading A/c		15,000
	(Being the actual cost of goods sent on consignment transferred to the Trading A/c)		

Problem. 14 On Ist September 1974 goods of the value of Rs 1,00,000 were consigned by Mr. Patankar of Bombay to Mr. Mahadev, his Calcutta Agent at *pro forma* invoice price of 20% profit on cost. Mr. Patankar paid insurance and forwarding charges Rs. 6,000. Mr. Mahadev was allowed Rs. 3,000 per annum towards establishment expeneses, 4% commission on gross sales and 4% del-credere commission. Mr. Mahadev paid Rs. 1,100 for Cartage, Rs. 2,000 for Godown rent and Insurance and incurred other Sundry Expenses of Rs. 900 in relation to the consigned goods. 90% of the goods were sold at a profit of 33⅓% on cost. 5% of the goods were destroyed by fire. An insurance claim of Rs. 8,000 was received from the Insurance Company by Mr. Mahadev. The balance 5% of the goods was taken over by Mr. Mahadev at a valuation of Rs. 6,000. The accounts were settled on 31st December, 1974. Show the Consignment Account and Consignee's account in the books of Shri Patankar.

(I.I.B. Part I, November 1975)

Solution :

Ledger Accounts in the Books of Pataukar

CONSIGNMENT TO CALCUTTA ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1974		Rs.	1974		Rs.
Sept. 1	To Goods sent on consignment A/c	1,20,000	Dec. 31	By Mahadev (Sale proceeds)	1,20,000
Sept. 1	To Bank (Insurance and forwarding charges)	6,000	Dec. 31	By Mahadev (Insurance claim)	8,000
Dec. 31	To Mahadev : (Establishment expenses for 4 months @ Rs. 3,000 per annum)	1,000	Dec. 31	By Mahadev (Stock taken over)	6,000
Dec. 31	To Mahadev : Cartage Rs. 1,100; Godown rent & Insurance 2,000; Sundry expenses 900	4,000	Dec. 31	By Goods sent on consignment A/c	20,000
Dec. 31	To Mahadev : (Commission @ 4% on the gross sale proceeds of Rs. 1,26,000)	5,040			
Dec. 31	To Mahadev : (Del-credere commission on the sale proceeds of Rs. 1,20,000 @ 4%)	4,800			
Dec. 31	To Profit & Loss A/c	13,160			
		1,54,000			1,54,000

Working Notes ;

1. Sales Proceeds ;

90% of the goods were sold at a profit of 33⅓% on cost. Therefore, the sale proceeds will be :

		Rs.
Cost of 90% of the goods		90,000
Add : Margin of $33\frac{1}{3}\%$		30,000
Sale Proceeds		1,20,000

2. Accidental Loss :

	Rs.	Rs.
Cost of 5% of the goods		5,000
Add : 5% of the undernoted expenses :		
Insurance & forwarding charges	6,000	
Cartage	1,100	
Insurance, etc.	2,000	
Sundry expenses	900	
	10,000	500
Total loss		5,500

As the amount of Insurance claim received is Rs. 8,000, the excess amount of Rs. 2,500 represents profit. Therefore, the total amount received from Insurance Company has been credited to the Consignment account.

3. Commission and del-credere Commission :

Commission is calculated on the gross sale proceeds, *i.e.*, Rs, 1,20,000 the sale proceeds and Rs. 6,000 stock taken over by the Consignee.

Del-credere commission is calculated only on the sale proceeds of Rs. 1,20,000.

Dr. MAHADEV ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1974		Rs.	1974		Rs.
Dec. 31	To Consignment to Calcutta A/c (Sales proceeds)	1,20,000	Dec. 31	By Consignment to Calcutta A/c :	
Dec. 31	To Consignment to Calcutta A/c (Insurance claim)	8,000		Establishment expenses	1 000
Dec. 31	To Consignment to Calcutta A/c (Stock taken over)	6,000		Cartage	1,100
				Godown rent & Insurance	2,000
				Sundry expenses	900
				Commission	5,040
				Del-credere commission	4,800
			Dec. 31	By Bank (Cheque received)	1,19,160
		1,34,000			1,34,000

GOODS SENT ON CONSIGNMENT ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1974		Rs.	1974		Rs.
Dec. 31	To Consignment to Calcutta A/c (Difference between Cost and Invoice value)	20,000	Sept. 1	By consignment to Calcutta A/c (Invoice value)	1,20,000
Dec. 31	To Trading A/c	1,00,000			
		1,20,000			1,20,000

Problem 15. Excel Chemicals Ltd. consigned to National Chemicals Company 2,000 kgs. of a chemical. The cost of chemical and freight thereon were Rs. 18 and Re 1 per kg. respectively.

An Account Sales was received from the consignee showing 1,000 kgs. sold at Rs. 32 per kg. Sales expenses amounted to Re. 1 per kg., insurance Rs. 1,000, brokerage at 10% and consignee's commision at 2½%. They also reported a shortage of weight of 40 Kgs. on the whole consignment, which was due to the inherent quality of the chemical.

Show the Consignment Account and the Consignee's Account in the books of the Consignor. *(I.I B. Part I, October 1976)*

Solution:

Ledger Accounts in the Books of Excel Chemicals Ltd.

CONSIGNMENT (to National Chemicals Company) ACCOUNT

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Goods sent on consignment A/c (2,000 kgs. @ Rs. 18 per kg.)	Rs. 36,000		By National Chemical Co (Sales proceeds of 1,000 kgs. @ Rs. 32 per kg.)	Rs. 32,000
	To Bank (Freight on 2,000 kgs. @ Re. 1 per kg.)	2,000		By Stock on consignment Account	19,102
	To National Chemicals Co. (sales expenses on 1,000 kgs. @ Re. 1 per kg.)	1,000			
	Insurance	1,000			
	Brokerage (10% of sales proceeds of Rs. 32,000)	3,200			
	Commission (2½% of sales proceeds of Rs. 32,000)	800			
	To Profit & Loss A/c	7,102			
		51,102			51,102

Dr. NATIONAL CHEMICALS COMPANY's ACCOUNT **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Consignment A/c (Sales proceeds)	32,000		By Consignment A/c:	
				Sales expenses	1,000
				Insurance	1,000
				Brokerage	3,200
				Commission	800
				By Balance c/d	26,000
		32,000			32,000

GOODS SENT ON CONSIGNMENT ACCOUNT

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Trading A/c	36,000	By Consignment A/c	36,000
	36,000		36,000

STOCK ON CONSIGNMENT ACCOUNT

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Consignment A/c	19,102	By Balance c/d	19,102
	19,102		19,102

Working Note:

Stock on Consignment

Chemicals consigned	2,000 kg.	Cost of chemicals consigned	[illegible]
Less: Normal Loss	40 kg.	*Add:* Freight	2,000
Quantity reached to the Consignee	1,960 kg.	Insurance	1,000
Chemicals sold	1,000 kg.	Total cost of chemicals consigned	39,000
Unsold stock with the Consignee	960 kg.		

Rs. 39,000 is the cost of 1,960 kg. of chemicals

Therefore, the cost of unsold stock of 960 kg. will be

$$= \frac{39,000 \times 960}{1,960} = \text{Rs. } 19,102.$$

Problem 16. Jyotimal of Calcutta consigned 50 cases of cotton-piece goods costing Rs. 2,000 each to Ziauddin of Dacca.

Jyotimal paid the following expenses in connection with the consignment:

	Rs
Carriage	2,500
Freight	19,000
Loading charges	3,500

Ziauddin sells 30 cases at Rs. 3,500 each and incurs the following expenses:

Landing charges	3,000
Warehousing and storages	5,000
Packing and selling expenses	4,000

It is found that 2 cases have been lost in transit and 3 cases are still in transit.

Ziauddin is entitled to a commission of 10% on gross sales.

Draw up the Consignment Account in the books of Jyotimal and Jyotimal's Account in the books of Ziauddin.

(I.I.B. Part I, April, 1979)

Solution:

Ledger Accounts in the Books of Jyotimal

CONSIGNMENT TO DACCA ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Amount*
	Rs.	Rs.		Rs.
To Goods sent on consignment A/c (50 cases of cotton-piece goods @ Rs. 2,000 each)		1,00,000	By Ziauddin : (Sale of 30 cases of cotton piece goods @ Rs. 3,500 each)	1,05,000
To Cash :			By Abnormal loss a/c	5,000
Carriage	2,500		By Goods in transit A/c	7,500
Freight	19,000		By Consignment Stock A/c	38,500
Loading charges	3,500	25,000		
To Ziauddin :				
Landing charges	3,000			
Warehousing and storages	5,000			
Packing and selling expenses	4,000	12,000		
To Ziauddin: Commission (@ 10% on the sales proceeds of Rs. 1,05,000)		10,500		
To Profit & loss a/c (*Balancing figure*)		8,500		
		1,50,000		1,56,000

Working Notes:

1. Abnormal Loss

	Rs.	Rs.
Cost of 2 cases which have been lost in transit @ Rs. 2,000 each		4,000
Add: *Proportionate (2/50th or 4%) of the undernoted non-recurring expenses*:		
Carriage	2,500	
Freight	19,000	
Loading charges	3,500	
	25,000	1,000
		5,000

2. Goods in transit:

	Rs.	Rs.
Cost of 3 cases which are still in transit @ Rs. 2,000 each		6,000
Add: Proportionate (3/50th or 6%) of the undernoted non-recurring expenses:		
Carriage	2,500	
Freight	19,000	
Loading charges	3,500	
	25,000	1,500
		7,500

3. Consignment Stock:

	Rs.	Rs.
Cost of the balance 15 cases @ Rs. 2,000 each		30,000
Add: Proportionate (15/50th or 30%) of the undernoted non-recurring expenses:		
Carriage	2,500	
Freight	19,000	
Loading charges	3,500	
	25,000	7,500
Add: Proportionate (15/45th or $33\frac{1}{3}$%) of the *landing charges*, because only 45 cases were landed at Dacca.	3,000	1,000
		38,500

Ledger Account in the Books of Jyotimal

Dr. ZIAUDDIN's ACCOUNTS Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Consignment to Dacca a/c	1,05,000	By Consignment to Dacca A/c (expenses incurred by them)	12,000
		By Consignment to Dacca A/c (Commission @ 10%)	10,500
		By Balance c/d	82,500
	1,05,000		1,05,000

Ledger Accounts in the books of Ziauddin

Dr. JYOTIMAL's ACCOUNT Cr.

Particulars	Details	Amount	Particulars	Amount
	Rs.	Rs.		Rs.
To Cash:			By Cash/Consignment debtors A/c (Sale of 30 cases at Rs. 3,500 each	1,05,000
Landing charging	3,000			
Wearehousing and storages	5,000			
Packing and selling expenses	4,000	12,000		
To Commission: (@ 10% on gross sale proceeds of Rs. 1,05,000)		10,500		
To Balance c/d		82,500		
		1,05,000		1,05,000

Problem 17. Mr. X of Bombay sent goods on consignment to Mr. Y of Ahmedabad on 30th August 1960. The cost of the goods was Rs. 60,000 but the invoice was made out at cost plus 25%. Mr. X incurred Rs. 5,000 as expenses.

Mr. Y received the goods on 4th September 1980 and immediately sent a promissory note for Rs. 30,000. He had to spend Rs. 6,000 as expenses.

On 31st December 1980 Y sent an account sales showing that 3/4 (three fourth) of the goods has been sold for Rs. 70,000 and 1/4 (one fourth) was still in stock.

Mr. Y is entitled to a commision of 6%. Mr. Y is also entitled to reimbursement of expenses. Along with the Account Sales, the necessary remittance was enclosed. A customer who had purchased goods on credit to the extent of Rs. 5,000 would not pay.

Please show the following accounts in the Book of Mr. X—
(1) Consignment to Ahmedabad A/c.
(2) Goods sent on Consignment A/c.
(3) Stock on Consignment A/c.
(4) Consignment Stock Reserve A/c.
(5) Mr. Y's A/c.

(I.I.B. Part I, April 1981)

Solution:

Ledger Accounts in the Books of Mr. X

Dr. (1) CONSIGNMENT TO AHMEDABAD ACCOUNT *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1980		Rs.	1980		Rs.
Aug. 30	To goods sent on consignmedt A/c (Invoice Price)	75,000	Dec. 31	By Y (Sale proceeds of 3/4 of the goods)	70,000
	To Cash (expenses)	5,000		By Stock on consignmet A/c (¼ th of the goods at Invoice Price) [as per working note : 1]	20,000
Dec. 31	To Y (expenses)	6,000		By Goods sent on consignment A/c (Difference of Invoice value and cost)	15,000
	To Y (Commission @ 6% on Rs. 65,000) [as per working note No. : 2]	3,900			
	To Y (Bad debts)	5,000			
	To Consignment stock reserve A/c (Unloading of 25% on cost in the value of stock) [as per working note : 1	3,750			
	To Profit & Loss A/c	6,350			
		1,05,000			1,05,000

Working Notes:

1. Calculation of stock on consignment A/c

	Rs.	Rs.
Cost of 1/4th of the goods	60,000/4	15,000
Add : 25% Margin of profit (loading)		3,750
Add : 1/4th of the consignor's expenses	5,000/4	1,250
		20,000

2. Since sale of Rs. 5,000 has turned out to be a bad debt, no commission is allowed to Y on it. As such commission is calculated *on total sales less bad debts i.e. Rs. 70,000—Rs. 5,000=Rs. 65,000.*

The amount of Bad Debts is debited to the consignment account as Del.-credere commission is not allowed.

(2) GOODS SENT ON CONSIGNMENT ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1980		Rs.	1980		Rs.
Dec. 31	To Consignment to Ahmedabad A/c	15,000	Aug. 30	By Consignment to Ahmedabad A/c	75,000
	To Trading A/c	60,000			
		75,000			75,000

(3) STOCK ON CONSIGNMENT ACCOUNT

1980		Rs.	1980		Rs.
Dec. 31	To Consignment to Ahmedabad A/c	20,000		By Balance c/d	20,000
		20,000			20,000

(4) CONSIGNMENT STOCK RESERVE ACCOUNT

1980		Rs.	1980		Rs.
Dec. 31	To Balance c/d	3,750	Dec. 31	By Consignment to Ahmedabad A/c	3,750
		3,750			3,750

(5) Y's ACCOUNTS

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1980		Rs.	1980		Rs.
Dec. 31	To Consignment to Ahmedabad A/c (Sale of 3/4th of the goods)	70,000	Sept. 4	By Bills Receivable A/c	30,000
			Dec. 31	By Consignment to Ahmedabad A/c (Expenses)	6,000
				By Consignment to Ahmedabad A/c (Bad Debts)	5,000
				By Consignment to Ahmedabad A/c (Commission) [As per Working Note No. 2]	3,900
				By Bank (Remittance)	25,100
		70,000			70,000

B

JOINT VENTURE ACCOUNTS

Problem 1. Write a short note on Joint Venture.

(I.I.B. Part I, November 1970)

Or

What is Joint Venture ? Describe the various methods for recording the transactions on account of a Joint Venture.

Solution. Joint Venture is a temporary partnership between two or more persons who undertake jointly to complete a particular adventure, *e.g.*, Joint Consignment of goods, underwriting of shares or debentures of a new Joint Stock Company, Construction of a Building jointly, purchase and sale of Plots, Cars, etc., and other similar temporary or seasonal business enterprise. The partners to a joint venture are called 'Co-venturers'. They agree to contribute a specific amount of capital and to share profits or losses in equal proportions or in any other agreed proportion.

Such arrangement may be limited to one transaction or may extend to a number of transactions. It may even be limited by reference to a period of time.

There are four different ways of maintaining the accounts of a Joint Venture :

1. Accounts to be kept by one of the Co-venturers.

2. Accounts to be kept by all the Co-venturers.

3. Accounts to be kept separately by opening a separate Joint Bank Account.

4. Each Co-venturer recording only his own transactions.

First Method. One of the Co-venturers is entrusted the whole of the work of the Joint-Venture. Other Co-venturers contribute their share of investment. The person so appointed is given a commission or remuneration for his work. He keeps the complete accounts of the joint venture and, at the end of the joint venture; a scertains the profit or loss of the venture. The other Co-venturers are paid the amount contributed by them adjusted for their share of the profit or loss.

ACCOUNTING TREATMENT

Transactions	*Account to be Debited*	*Account to be Credited*
Amount received from other Co-venturers	Cash/Bank	Co-venturers
For purchasing goods for cash	Joint Venture	Cash/Bank
For purchasing goods on credit	Joint Venture	Suppliers
For supplying goods from his own stock	Joint Venture	Goods
For goods supplied by Co-venturers	Joint Venture	Co-venturers
For expenses incurred	Joint Venture	Cash/Bank
For making cash sales	Cash/Bank	Joint Venture
For goods sold on credit	Purchaser's	Joint Venture
For the commission earned by him	Joint Venture	Commission
For the stock in hand taken over by him	Goods	Joint Venture
For stock taken over by Co-venturers	Co-venturers	Joint Venture
For the profit on joint venture	Joint Venture	Profit and Loss (his own share) Co venturers (their shares)
For Loss on joint venture	Profit and Loss (his own share) Co-venturers (their shares)	Joint Venture
On completion, for remitting the amount due to Co-venturers	Co-venturers	Cash/Bank

Second Method. All the Co-venturers keep the accounts relating to the Joint Venture. Each of them opens the acconts of other Co-venturers and a Joint Veuture Account.

ACCOUNTING TREATMENT

Transactions	*Account to be Debited*	*Account to be Credited*
For cash purchase of goods by him	Joint Venture	Cash/Bank
For credit purchase of goods by him	Joint Venture	Suppliers
For expenses incurred by him	Joint Venture	Cash/Bank
For goods purchased by other Co-venturers	Joint Venture	Co-venturers
For expenses incurred by Co-venturers	Joint Venture	Co-venturers
For goods sold by him for cash	Cash/Bank	Joint Venture
For goods sold by him on credit	Purchaser's	Joint Venture
For goods sold by the Co-venturers	Co-venturers	Joint Venture
For profit on Joint Venture	Joint Venture	Profit and Loss (his own share) Co-venturers (their shares)
For loss on Joint Venture	Profit & Loss (his own share) Co-venturers (their shares)	Joint Venture
For the final settlement with the Co-venturers :		
(*a*) for receiving the amount due from Co-venturers	Cash/Bank	Co-venturers
(*b*) for remitting the amount due to other Co-venturers	Co-venturers	Cash/Bank

Third Method. The Co-venturers open a Joint Bank Account, by paying their share of investment in this account. All the payments on account of Joint Venture are made out of the Joint Bank Account.

A separate set of books is maintained for the Joint Venture.

ACCOUNTING TREATMENT

Transactions	*Account to be Debited*	*Account to be Credited*
For amounts contributed by the Co-venturers	Joint Bank	Co-venturers
For purchase of goods on cash	Joint Venture	Joint Bank
For purchase of goods on credit	Joint Venture	Suppliers'
For expenses incurred	Joint Venture	Joint Bank
For cash sales proceeds	Joint Bank	Joint Veuture
For credit sales	Purchasers'	Joint Venture
For stock taken over by the Co-venturers	Co-venturers	Joint Venture
If there is profit on Joint Venture	Joint Venture	Co-venturers (in their profit sharing ratio)
If their is loss on Joint Venture	Co-venturers (in their profit sharing ratio)	Joint Venture
For settlement of the account of each Co-venturer, *i.e.*, for making payment of the amount due to them	Co-venturers	Joint Bank

Note : When the accounts of the Co-venturers are settled, no balance is left in the Joint Bank Account.

Fourth Method. Each Co-venturer keeps a record of the transactions relating to him. He keeps a Joint Venture account, to which the amounts contributed by him to the Joint Venture or received on its account are debited or credited.

On completion of the Joint Venture, a Memorandum Joint Venture Account is made in which the amounts received or paid by each of the Co-venturer are included. This account shows the collective result of the income or expenditure relating to the Joint Venture. The balance of this account will represent the amount of profit or loss on the Joint Venture.

After ascertaining the profit or loss on the Joint Venture, each of the Co-venturer records his share of profit or loss in the Joint Venture account maintained by him.

Once this is done, the Joint Venture accounts in the books of each of the Co-venturer will show equal and opposite balances, *i.e.*, the total of the credit balances will be equal to the total of the debit balances.

ACCOUNTING TREATMENT

Transactions	*Account to be Debited*	*Account to be Credited*
For goods purchased by him	Joint Venture	Cash/Bank/ Suppliers'
For expenses incurred by him	Joint Venture	Cash/Bank
For goods sold by him	Cash/Bank/ *Purchasers'*	Joint Venture
For his share of profit (as arrived at from Memorandum Joint Venture Account)	Joint Venture	Profit & Loss
For his share of loss (as arrived at from Memorandum Joint Venture Account)	*Profit & Loss*	*Joint Venture*
For settlement with Co-venturers :		
(*i*) Amount payable	*Joint Venture*	*Co-venturers*
(*ii*) Amount receivable	Co-venturers	Joint Venture

Notes. 1. All the Co-venturers will prepare Memorandum Joint Venture Account with them separately after receiving details from other Co-venturers. This account does not form part of the Double Entry System. It is a nominal account disclosing profit or loss of the entire Joint Venture.

2. *Under this method, Joint Venture Account is treated as a* personal account, indicating the amount due from, or due to other Co-venturers.

Problem 2. A and B bought a collection of stamps on joint account. It was agreed that A should finance the transaction and should receive at 7½% per annum interest on the sum provided from the date of purchase to the date he received his share of the proceeds, and B should sell the collection and should receive 5% on the amount realised. Any amount remaining thereafter be shared equally. B was to bear any expenses paid by him.

The collection was bought on *1st March for a sum of* Rs. 2,000, A borrowing the amount from a friend at 6% per annum. Two months later B sold the same for Rs. 2 500. The expenses of sale came to Rs. 50. He cabled the appropriate amount to A, who immediately repaid the loan.

You are required to show how the transactions should be dealt with in A's ledger.

(I.I.B. Part I, May 1974)

Solution:
Ledger Accounts in the Books of A

JOINT VENTURE ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
Mar. 1	To Cash (Stamps purchased)		2,000	May 1	By B (Sales proceeds)		2,500
May 1	To Interest A/c (@ 7½% p.a. on Rs. 2,000 for 2 months)		25				
May 1	To B (Commission @ 5% on sales proceeds of Rs. 2,500)		125				
May 1	To profit on Joint Venture transferred to: Profit & Loss A/c (½ share): Rs. 175; B (½ share): Rs. 175		350				
			2,500				2,500

Notes: (1) Interest on amount borrowed by A from his friend @ 6% p.a. is personal expense of Mr. A, therefore, it will not be debited to the Joint Venture A/c.

(2) The expenses of sale amounting to Rs. 50 incurred by B is the personal expense of Mr. B, therefore, it will not be debited to the Joint Venture A/c.

B's ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
May 1	To Joint Venture A/c (Sales proceeds)	2,500	May 1	By Joint Venture A/c (Commission)	125
			May 1	By Joint Venture A/c (profit)	175
			May 1	By Cash (Balance amount received by cable)	2,200
		2,500			2,500

FRIEND's LOAN ACCOUNT

Dr. Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Cr. Amount
May 1	To Cash		2,020	Mar. 1	By Cash		2,000
				May 1	By Interest A/c (@ 6% p.a. for 2 months on Rs. 2,000)		20
			2,020				2,020

CASH ACCOUNT

Mar. 1	To Friend's Loan A/c	2,000	Mar. 1	By Joint Venture A/c	2,000
Map 1	To B's A/c	2,200	May 1	By Friend's Loan A/c	2,020
			May 1	By Balance c/d	180
		4,200			4,200

INTEREST ACCOUNT

		Rs.			Rs.
May 1	To Friend's Loan A/c	20	May 1	By Joint Venture A/c	25
May 1	To Profit & Loss A/c	5			
		25			25

PROFIT & LOSS ACCOUNT OF A
FOR THE 2 MONTHS ENDING
1st May............

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Net profit c/fd to Capital A/c	180	By Joint Venture A/c	175
		By Interest A/c	5
	180		180

Cr.

A's CAPITAL ACCOUNT

...te	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
...ay 1	To Balance c/d		180	May 1	By Profit & Loss A/c		180
			180				180

BALANCE SHEET OF A

as on 1st May.........

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital A/c	180	Cash in hand	180
	180		180

Problem 3. A and B enter into a joint venture, agreeing to share profit and losses in proportion of 4/5th and 1/5th respectively. A supplies goods to the value of Rs. 5,000 and incurs expenses amounting to Rs. 400. B supplies goods to the value of Rs. 4,000 and his expenses amount to Rs. 300. B sells goods on behalf of the joint venture for Rs. 12,000, charging 5% as commission of value realised. The amount due is settled by bank draft.

Show the necessary accounts in the books of both the parties.

(*I.I.B. Part I, May 1973*)

Solution:

Ledger Accounts in the Books of A:

Dr. JOINT VENTURE ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To Goods (Supplied)		5,000		*By B (Sales proceeds)*		12,000
	To Cash (Expenses)		400				
	To B (Goods supplied)		4,000				
	To B (Expenses)		300				
	To B (Commission @ 5% on Rs. 12,000)		600				
	To Profit on joint venture transferred to:						
	P & L A/c (4/5th share) 1,360						
	B's A/c (1/5th share) 340		1,700				
			12,000				12,000

Dr. B's ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To Joint Venture A/c (Sales proceeds)		12,000		*By Joint Venture A/c (Goods Supplied)*		4,000
					By Joint Venture A/c (Expenses incurred)		300
					By Joint Venture A/c (Commission earned)		600
					By Joint Venture A/c (1/5th share in profits)		340
					By Bank A/c (Amount remitted by him) (*Balancing figure*)		6,760
			12,000				12,000

...dger Accounts in the Books of B:

JOINT VENTURE ACCOUNT

...te	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount Cr.
			Rs.				Rs.
	To A (Goods supplied)		5,000		By Cash A/c (Sales proceeds)		12,000
	To A (Expenses)		400				
	To Goods A/c (Supplied)		4,000				
	To Cash A/c (Expenses)		300				
	To Commission A/c (5% on sale proceeds)		600				
	To profit on Joint Venture transferred to: P & L A/c (1/5th Share) 340; A's A/c (4/5th share) 1,360		1,700				
			12,000				12,000

A's ACCOUNT

Dr. Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount Cr.
			Rs.				Rs.
	To Bank A/c (Balance amount paid to him)		6,760		By Joint Venture A/c (Goods supplied)		5,000
					By Joint Venture A/c (Expenses incurred)		400
					By Joint Venture A/c (4/5th share in profits)		1,360
			6,760				6,760

Problem 4. Mr. K in Madras purchases cotton goods and sends them to Mr. B in Delhi for sale on joint venture basis, profits and losses to be divided equally.

On 1st July 1980 K purchased goods worth Rs. 10,000 and sent them to B in Delhi, the freight paid Rs. 1,000 by K.

K draw upon B a Bill for Rs. 8,000 payable after [illegible] months. B accepted the same which K got it discounted for Rs. 7,800. On 31st December 1980 B informed K that he had incurred expenses amounting to Rs. 1,200 and that the entire lot had been sold for Rs. 18,000. B remitted the requisite sum to K.

You are required to show—

(*a*) Joint Venture Account.

(*b*) Other party's Account, as it would appear in the book of 'K' and 'B'.

(*I.I.B. Part I, April 1981*)

Solution:

Ledger Accounts in the Books of K

JOINT VENTURE ACCOUNT

Dr. *Date*	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount* *Cr.*
1980		Rs.	1980		Rs.
July 1	To Purchases	10,000	Dec. 31	By B (Sales)	18,000
	To Cash (Frieght)	1,000			
	To Bank (Bill discounting charges)	200			
Dec. 31	To B (Expenses)	1,200			
	To Profit & Loss A/c (½ share)	2,800			
	To B (½ share)	2,800			
		18,000			18,000

B's ACCOUNT

1980		Rs.	1980		Rs.
Dec. 31	To Joint Venture A/c	18,000	July 1	By Bills Receivable A c	8,000
			Dec. 31	By Joint Venture A/c (Expenses)	1,200
			Dec 31	By Joint Venture A/c (½ share in profit)	2,800
			Dec. 31	By Bank A/c (Balance amount remitted by him)	6,000
		18,000			18,000

Ledger Accounts in the Books of B:

JOINT VENTURE ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
1980		Rs.	1980		Rs.
July 1	To K (Purchases)	10,000	Dec. 31	By Cash (Sales)	18,000
	To K (Freight)	1,000			
	To K (Bill Discounting charges)	200			
Dec. 31	To Cash (Expenses)	1,200			
	To Profit & Loss A/c (½ share)	2,800			
	To K (½ share)	2,800			
		18,000			18,000

K's ACCOUNT

1980		Rs.	1980		Rs.
July 1	To Bills Payable A/c	8,000	July 1	By Joint Venture A/c (Purchases)	10,000
Dec. 31	To Bank A/c (Balance remitted)	6,000		By Joint Venture A/c (Freight)	1,000
				By Joint Venture A/c (Bill Discounting charges)	200
			Dec. 31	By Joint Venture A/c (Profit ½ share)	2,800
		14,000			14,000

Problem 5. A B & Co. bought goods of the value of Rs. 10,000 and sent the same to X Y & Co., to be sold by them on a joint venture, profits bring divided into 2/3rds and 1/3rds. They also paid Rs. 500 for freight, insurance and cartage and drew on X Y & Co. for Rs. 3,000 on account. The bill was discounted by A B & Co. for Rs. 2,920.

X Y & Co. paid Rs. 500 for dock dues, storage rent, etc. The sales realised Rs. 15,000 and sales expenses Rs. 250 were defrayed by X Y & Co.

X Y & Co. forwarded a sight draft for the balance due to A B & Co. after charging their sales commission at 5% on gross proceeds.

Show ledger accounts in the books of both the parties.

(I.I B. Part I, November 1969)

Solution:

Ledger Accounts in the Books of A B & Co.

JOINT VENTURE (WITH X Y & CO.) ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To Cash (Goods purchased)		10,000		By X Y & Co. (Sales proceeds)		15,000
	To Cash (Freight, insurance and cartage)		500				
	To Bills Receivable (Discount)		80				
	To X Y & Co. (Dock dues, storage rent, etc.)		500				
	To X Y & Co. (Sales expenses)		250				
	To X Y & Co. (Commission on sales @ 5%)		750				
	To Profit on Joint Venture transferred to: Profit & Loss A/c (2/3rd share) Rs 1,947; X Y & Co. (1/3rd share) Rs. 973		2,920				
			15,000				15,000

X Y & Co.'s ACCOUNT

Dr. | Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To Joint Venture A/c (Sales proceeds)		15,000		By Bills receivable A/c		3,000
					By Joint Venture A/c (Dock dues, storage rent, etc.)		500
					By Joint Venture A/c (Sales expenses)		250
					By Joint Venture A/c (Commission)		750
					By Joint Venture A/c (Profit)		973
					By Bills receivable		9,527
			15,000				15,000

Ledger Accounts in the Books of X Y & Co:

JOINT VENTURE (WITH A B & Co.) ACCOUNT

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To A B & Co. (purchases of goods)	10,000	By Cash (Sales proceeds)	15,000
To A B & Co. (Freight, insurance and cartage)	500		
To A B & Co. (Discount)	80		
To Cash (Dock dues, storage rent, etc.)	500		
To Cash (Sales expenses)	250		
Total c/fd	11,330	Total c/fd	15,000

Total b/fd		11,330		Total b/fd	15,000
To Commission (5% on Sale proceeds)		750			
To Profit on Joint Venture transferred to:					
Profit & Loss A/c (1/3rd)	973				
A B & Co. (2/3rd)	1,947	2,920			
		15,000			15,000

A B & CO.'s ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To Bills payable		3,000		By Joint Venture (Purchase of goods)		10,000
	To Bills		9,527		By Joint Venture (Freight, insurance and cartage)		500
					By Joint Venture (Discounting of bills)		80
					By Joint Venture (Profit)		1,947
			12,527				12,527

Problem 6. A, B and C enter into Joint Venture to share Profit and Loss as 5 : 3 : 2. No separate set of books is maintained. Amount contributed and received by different venturers are given below :

	A	B	C
	Rs.	Rs.	Rs.
Cost of Materials	20,000	10,000	—
Expenses	3,000	1,000	2,000
Sale proceeds received	—	7,000	40,000
Stock taken over	—	2,000	7,000

Prepare, in the books of A only, the following Accounts :

(1) Joint Venture A/c (2) Co-Venturer's Accounts.

(I.I.B. Part I, October 1980)

Solution:

Dr. JOINT VENTURE ACCOUNT *Cr.*

Date	*Particulars*	*L.F.*		*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
				Rs.				Rs.
	To Purchases (Material)			20,000		By B (Sales)		7,000
	To B (Materials)			10,000		By C (Sales)		40,000
	To Cash (Expenses)			3,000		By B (Stock taken over)		2,000
	To B (Expenses)			1,000		By C (Stock taken over)		7,000
	To C (Expenses)			2,000				
	To Profit & Loss A/c (5/10th share)		10,000					
	To B (3/10th share)		6,000					
	To C (2/10th share)		4,000	20,000				
				56,000				56,000

CO-VENTURERS ACCOUNTS

Date	*Particulars*	*B's Amount*	*C's Amount*	*Date*	*Particulars*	*B's Amount*	*C's Amount*
		Rs.	Rs.			Rs.	Rs.
	To Joint Venture A/c (Sales)	7,000	40,000		By Joint Venture A/c (Materials)	10,000	—
	To Joint Venture A/c (Stock taken over)	2,000	7,000		By Joint Venture A/c (Expenses)	1,000	2,000
	To Balance c/d	8,000			By Joint Venture A/c (Profit)	6,000	4,000
					By Balance c/d	—	41,000
		17,000	47,000			17,000	47,000

Problem 7. Mr. Vishwanath of Bangalore and Mr. Patil of Bombay decided to enter into a joint-venture sharing profit and loss in the ratio of 3 : 2. Accordingly Mr. Vishwanath purchased 1,000 metres of Mysore silk at Rs. 24 per metre and sent it to Mr. Patil for being sold at Bombay with freight 'to-pay' of Rs. 800, after spending Rs. 350 towards packing and forwarding. Mr. Patil cleared the goods and incurred a sum of Rs. 150 towards local carting, coolie charges. Mr. Patil sold 900 metres at Rs. 30 per metre after incurring selling expenses of Rs. 253. Mr. Vishwanath drew a Bill for Rs. 24,000 with 3 months usance which Mr. Patil returned back duly accepted. Mr. Vishwanath discounted the same with his bank. (Discount charges: Rs. 960).

Mr. Vishwanath took over the remaining stocks at cost plus 10% (Ignore expenses on rebooking of stocks to Bangalore).

Mr. Vishwanath is also entitled to commission of 5 % on sales.

Show the Joint Venture Account.

(I.I.B. Part I, November 1982)

Solution:

JOINT VENTURE ACCOUNT

Particulars	*L.F.*	*Amount*	*Particulars*	*L.F.*	*Amount*
		Rs.			Rs.
To Vishwanath (Cash of 1,000 metres of Mysore Silk @ Rs. 24 per metre)		24,000	By Patil (Sale of 900 metres @ Rs. 30 per metre)		27,000
To Vishwanath (Packing & forwarding)		350	By Vishwanath (Stock of 100 metres taken over at cost plus 10% as per working note)		2,783
To Patil : Freight	800				
Local carting, collie charges	150	950			
To Patil (Selling expenses)		253			
To Vishwanath (Discounting charges of the bill)		960			
To Vishwanath (5% commission on Sales of Rs. 27,000)		1,350			
To Profit transferred to : Vishwanath (3/5th)	1,152				
Patil (2/5th)	768	1,920			
		29,783			29,783

Working Note:

Calculation of value of stock taken over by Vishwanath:

		Rs.
Cost of 100 metres, @ Rs. 24 per metre		2,400
Add: 1/10th of the undernoted costs:		
Packing & forwarding	350	
Freight	800	
Local carting and coolie charges	150	
	1,300	130
		2,530
Add: 10% of the cost		253
		2,783

Expenses on re-booking of stocks to Bangalore ignored.

Problem 8. X and Y purchased a building for a sum of Rs. 45,000 as joint investment. X and Y brought in Rs. 10,000 and Rs. 5,800 respectively as capital. The Building was mortgaged for Rs. 30,000 bearing interest at 6% from 1st January 1966 *i.e.*, the date on which the purchase was completed.

X agreed to collect rents for which he was to be paid 2% on gross rent.

For the year ending 31st December 1966 he collected Rs. 6,200 towards rent.

The following outgoings were incurred by X:

Ground rent Rs. 500; Electric light charges Rs. 832; Repairs Rs. 480 and Expenses Rs. 1,600.

Y is to be charged with Rs. 1,200 for premises occupied by him. He also paid Rs. 160 for repairs.

Prepare accounts showing these transactions and the division of the balance of the revenue account.

X and Y agreed to divide the profits equally.

(*I.I.B. Part I, November 1967*)

Solution:

Workings:

JOURNAL ENTRIES

Sl.	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
(1)	Bank A/c Dr.		15,800	
	To X's Capital A/c			10,000
	To Y's Capital A/c			5,800
	(Being the Co-venturers introduced capital)			
(2)	Building A/c Dr.		45,000	
	To Vendor's A/c			45,000
	(Being the building purchased)			
(3)	Bank A/c Dr.		30,000	
	To 6% Loan A/c			30,000
	(Being loan taken against the mortgage of the building purchased)			
(4)	Vendor's A/c Dr.		45,000	
	To Bank A/c			45,000
	(Being payment for building purchased made to the vendor's by cheque)			
(5)	Revenue A/c Dr.		3,412	
	To X's Capital A/c			3,412
	(Being X paid Rs. 500 towards ground rent, Rs. 832 for Electric light, Rs. 480 towards Repairs and incurred expenses amounting to Rs. 1,600)			
(6)	Revenue A/c Dr.		160	
	To Y's Capital A/c			160
	(Being Amount paid by Y for repairs)			
(7)	Y's Capital A/c Dr.		1,200	
	To Revenue A/c			1,200
	(Being rent charged from Y for premises occupied by him)			

(8)	X's Capital A/c	Dr.	6,200	
	To Revenue A/c			6,200
	(Being rents collected by X)			
(9)	Revenue A/c	Dr.	148	
	To X's Capital A/c			148
	[Being commission on gross rent Rs. 7,400 (Rs. 6,200+Rs. 1,200) @ 2% payable to X]			
(10)	Revenue A/c	Dr.	1,800	
	To 6% Loan A/c			1,800
	(Being interest on loan for a period of one year @ 6% p.a. on Rs. 30,000)			
(11)	Revenue A/c	Dr.	1,880	
	To X's Capital A/c			940
	To Y's Capital A/c			940
	(Being the revenue profit divided between the partners equally)			

Ledger Accounts in the Books of the Co-venturers

REVENUE ACCOUNT

for the year ended 31st December, 1966

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To X's Capital A/c:			By X's Capital A/c:		
Ground rent	500		Rent collection		6,200
Electric light charges	832		By Y's Capital A/c:		
Repairs	480		Rent payable		1,200
Misc. expenses	1,600	3,412			
To Y's Capital A/c: Repairs		160			
Total c/fd		3,572	Total c/fd		7,400

Total b/fd		3,572		Total b/fd	7,400
To X's Capital A/c: (Commission @ 2% on gross rent of Rs. 7,400)		148			
To 6% Loan A/c: (Interest on loan)		1,800			
To Profit c/f to capital accounts:					
X's Capital A/c (½)	940				
Y's Capital A/c (½)	940	1,880			
		7,400			7,400

CAPITAL ACCOUNT

Dr. *Cr.*

Particulars	*L.F.*	*Amounts X*	*Amounts Y*	*Particulars*	*L.F.*	*Amounts X*	*Amounts Y*
		Rs.	Rs.			Rs.	Rs.
To Revenue A/c		6,200	1,200	By Bank A/c		10,000	5,800
To Balance c/f		8,300	5,700	By Revenue A/c		3,412	160
				By Revenue A/c		148	—
				By Revenue A/c		940	940
		14,500	6,900			14,500	6,900

BANK ACCOUNT

Dr. Cr.

Particulars	L.F.	Amount	Particulars	L.F.	Amount
		Rs.			Rs.
To X's Capital A/c		10,000	By Vendors (for Building A/c		45,000
To Y's Capital A/c		5,800	By Balance c/d		800
To 6% Loan A/c		30,000			
		45,800			45,000

6% LOAN ACCOUNT

Security : Mortgage of Building

Dr. Cr.

To Balance c/d	31,800	By Bank A/c	30,000
		By Revenue A/c (Interest for 1 year)	1,800
	31,800		31,800

BUILDINGS ACCOUNT

(Mortgaged against loan)

Dr. Cr.

To Vender's A/c	45,000	By Balance c/d	45,000
	45,000		45,000

VENDOR's ACCOUNT

Dr. Cr.

To Bank A/c	45,000	By Building A/c	45,000
	45,000		45,000

BALANCE SHEET OF X & Y
as on 31st December, 1966

Liabilities & Capital		*Amount*	*Properties & Assets*	*Amount*
To 6% Loan A/c		31,800	Buildings	45,000
Capital Accounts:			Cash at bank	800
X's	Rs. 8,300			
Y's	Rs. 5,700	14,000		
		45,800		45,800

Problem 9. A of Ahmedabad and B of Bombay enter into a joint venture to consign 100 bales to C at Calcutta, to be sold on their joint risk. They agree to share profits or losses equally.

A sends 50 bales at Rs. 1,200 each. He pays freight and expenses Rs. 1,200. B sends 50 bales at Rs. 1,100 each. His freight and other charges come to Rs. 900.

All the bales reached Calcutta in time. However, 5 bales were found to have been tempered with during transit. A recovered Rs. 3,000 from the insurance company. C sold the remaining bales for Rs. 1,35,000. He charged 3% as selling commission and deducted Rs. 1,500 towards expenses.

He remitted the balance amount to A by D/D on State Bank of India payable at Ahmedabad.

Prepare a joint venture account Also account of A in B's books and B's account in A's books.

(*I.I.B. Part I, November 1970*)

Solution:

Dr. JOINT VENTURE ACCOUNT *Cr.*

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To A (50 bales @ Rs. 1,200 each)		60,000		By A (Insurance claim for 5 bales)		3,000
	To A (Freight and expenses)		1,200		By C (Sale of 95 bales)		1,35,000
	To B (50 bales @ Rs. 1,100 each)		55,000				
	To B (Freight and other charges)		900				
	To C (Selling Commission @ 3% on Rs. 1,35,000)		4,050				
	To C (Expenses)		1,500				
	To Profit transferred to: A (½) Rs. 7,675 B (½) Rs. 7,675		15,350				
			1,38,000				1,38,000

C's ACCOUNT

Dr. Date	Particulars	Amount	Date	Particulars	Cr. Amount
		Rs.			Rs.
	To Joint Venture (Sales proceeds)	1,35,000		By Joint Venture (Selling commission @ 3%)	4,050
				By Joint Venture (Expenses)	1,500
				By A (Balance remitted by Bank Draft)	1,29,450
		1,35,000			1,35,000

B's ACCOUNT

Dr. Date	Particulars	Amount	Date	Particulars	Cr. Amount
	To Balance c/d	63,575		By Joint Venture (Supplied 50 bales @ Rs. 1,100 each)	55,000
				By Joint Venture (Freight and other charges)	900
				By Joint Venture (Profit on joint venture—½ share)	7,675
		63,575			63,575

A's ACCOUNT

Dr. Date	Particulars	Amount	Date	Particulars	Cr. Amount
	To Joint Venture (Insurance claim received)	3,000		By Joint Venture (Supplied 50 bales @ Rs. 1,200 each)	60,000
	To C (Proceeds received from C)	1,29,450		By Joint Venture (Freight and expenses)	1,200
				By Joint Venture (Profit on joint venture—½ share)	7,675
				By Balance c/d	63,575
		1,32,450			1,32,450

In the Books of A:

JOINT VENTURE (WITH B) ACCOUNT

Dr.							Cr.
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To Goods A/c (50 bales @ Rs. 1,200 each)		60,000		By Bank (Insurance claim)		3,000
	To Cash (Freight & expenses)		1,200		By Bank (Remittance from C)		1,29,450
	To Profit & Loss A/c (Profit on joint venture—½ share)		7,675				
	To Balance c/d (Amount payable to B)		63,575				
			1,32,450				1,32,450

In the Books of B:

JOINT VENTUNE (WITH A) ACCOUNT

Dr.							Cr.
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To Goods A/c (50 bales @ Rs. 1,100 each)		55,000		By Balance c/d (Amount receivable from A)		63,575
	To Cash (Freight and other charges)		900				
	To Profit & Loss A/c (Profit on joint venture—½ share)		7,675				
			63,575				63,575

Problem 10. Kantilal and Mohanlal were partners in a joint venture sharing profits and losses in the ratio of 3 : 2.

Kantilal purchased goods worth Rs. 30,000 and sent them to Mohan Lal and spent Rs. 2,400 in the process. Mohanlal reported after time that he had sold goods for Rs. 32,000 and that the remaining goods cannot be sold by him.

They decided to entrust the sale of these goods on consignment basis to Shantilal who agreed to sell the goods on their behalf. He was to be paid all expenses and 5% commission on the sales.

After some time Shantilal sent an Account Sales, along with a cheque of Rs. 3,500 to Mohanlal, after deducting his expenses Rs. 350 and commission. The unsold goods were returned by him to Mohanlal.

Kantilal and Mohanlal decided to close the venture and Mohanlal took over the balance goods at an agreed value of Rs. 2,000.

Mohanlal sent a statement of account according to which he spent Rs. 1,450 on this venture. They also settled their account.

You are required to prepare the relevant accounts of the joint venture in the books of Kantilal and Mohanlal disclosing the profit or loss made on the venture and the final settlement between them.

(*I.I.B. Part I, October 1976*)

Solution:

Ledger Accounts in the Books of Kantilal:

JOINT VENTURE (WITH MOHANLAL) ACCOUNT

Dr. *Cr.*

Particulars	*L.F.*	*Amount*	*Particulars*	*L.F.*	*Amount*
		Rs.			Rs.
To Cash (Purchase of goods)		30,000	By Mohan Lal (Sales proceeds)		32,000
To Cash (Expenses incurred)		2,400	By Mohan Lal (Net sales proceeds from the consignee received by him)		3,500
To Mohan Lal (Expenses incurred by him)		1,450	By Mohan Lal (Stock taken over)		2,000
Tatal c/f		33,850	Total c/f		37,500

	Rs.		Rs.
Total b/f	33,850	Total b/f	37,500
To Profit on joint venture transferred to:			
Mohan Lal (2/5th share) Rs. 1,460			
Profit & Loss Account (2/5th share) 2,190	3,650		
	37,500		37,500

MOHAN LAL's ACCOUNT

Dr. Cr.

Particulars	L.F.	Amount	Particulars	L.F.	Amount
		Rs.			Rs
To Joint Venture A/c (Sale proceeds)		32,000	By Joint Venture A/c (Expenses incurred)		1,450
To Joint Venture A/c (Net sales proceeds received from the consignee)		3,500	By Joint Venture A/c (2/5th share in the profits)		1,460
To Joint Venture (Stock taken over)		2,000	By Cash (Balance amount remitted by him)		34,590
		37,500			37,500

Ledger Accounts in the Books of Mohan Lal:

JOINT VENTURE (WITH KANTILAL) ACCOUNT

Dr. *Cr.*

Particulars		*L.F.*	*Amount*	*Particulars*	*L.F.*	*Amount*
			Rs.			Rs.
To Kanti Lal (Goods purchased (by him)			30,000	By Cash A/c (Sale proceeds)		32,000
To Kanti Lal (Expenses incurred by him)			2,400	By Bank A/c (Cheque received from Shantilál, being the net sales proceeds received from him)		3,500
To Cash (Expenses incurred)			1,450	By Purchases A/c (Stock taken over)		2,000
To Profit on Joint Venture transferred to:	Rs.					
Kanti Lal (3/5th share)	2,190					
Profit & Loss Account (2/5th share)	1,460		3,650			
			37,500			37,500

KANTILAL's ACCOUNT

Dr. *Cr.*

Particulars	*L.F.*	*Amount*	*Particulars*	*L.F.*	*Amount*
		Rs.			Rs.
Ta Cash (Balance amount paid to him)		34,590	By Joint Venture A/c (Goods supplied by him)		30,000
			By Joint Venture A/c (Expenses incurred)		2,400
			By Joint Venture A/c (3/5th share in the profits)		2,190
		34,590			34,590

Working Notes:

The expenses incurred by the consignee Sh. Shantilal and the commission deducted by him from the sales proceeds will not be entered in the Joint Venture Account, because the details of the cost of the goods sent to him are not given. He has remitted the net sale proceeds to Mohan Lal.

Problem 11. X and Y enter into a joint venture to buy and sell timber, sharing profits and losses equally.

Y brought in Rs. 1,50,000 as capital which is to earn interest at 4% per annum. X to get a salary of Rs. 700 per month and Rs. 3,000 for the use of his plant.

X purchased the timber for Rs 52,000. Y provided some plant and machinery for Rs 30,000 and also paid Rs. 2,000 as legal charges.

Y sold the timber for Rs. 3,25,000 on which he is to get 2% as commission and remitted half the proceeds to X.

X paid the following:—

Wages Rs. 80,000; Motor and haulage Rs. 30,000; Repairs and upkeep of plant Rs. 10,000; Sundry expenses Rs. 9,000.

It took 9 months to complete the joint venture. Y took back his plant and machinery at a revalued price of Rs. 18,000. X remitted the balance due to Y.

Show Joint Venture Account and Y's Account in the books of X.

(I.I.B. Part I, May 1975)

Solution:

Ledger Accounts in the Books of X:

JOINT VENTURE ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Cash (Purchase of timber)		52,000	By Y (Sales proceeds of timber)		3,25,000
To Y:			By Y (Plant taken back)		18,000
Plant & Machinery	30,000				
Legal charges	2,000	32,000			
To Y (Commission @ 2% on the sale proceeds of Rs. 3,25,000)		6,500			
To Cash:					
Wages	80,000				
Motor & haulage	30,000				
Repairs & upkeep of plant	10,000				
Sundary expenses	9,000	1,29,000			
Total c/f		2,19,500	Total c/f		3,43,000

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Total b/f		2,19,500	Total b/f		3,43,000
To Y (Interest on capital of Rs. 1,50,000 @ 4% p.a. for a period of 9 months)		4,500			
To Salaries A/c (@ Rs. 700 per month for a period of 9 months)		6,300			
To Hire of Plant		3,000			
To Profit on Joint Venture transferred to :					
Y (½ share)	54,850				
Profit & Loss A/c (½ share)	54,850	1,09,700			
		3,43,000			3,43,000

Y's ACCOUNT

Dr. Particulars	Details	Amount	Particulars	Details	Cr. Amount
	Rs.	Rs.		Rs.	Rs.
To Joint Venture A/c (Sales proceeds of timber)		3,25,000	By Cash (Capital introduced)		1,50,000
To Joint Venture A/c (Plant taken over)		18,000	By Joint Venture A/c:		
			Plant & Machinery	30,000	
			Legal charges	2,000	32,000
To Cash (Balance amount remitted)		67,350	By Joint Venture A/c (Commission @ 2% on sales proceeds)		6,500
			By Joint Venture A/c (Interest on capital @ 4% p a. for 9 months)		4,500
			By Joint Venture A/c (½ share in profits)		54,850
			By Cash (½ of sales proceeds)		1,62,500
		4,10,350			4,10,350

Problem 12. Ramesh and Suresh entered into a Joint Venture sharing Profits and Losses as 3 : 2. They opened a Joint Bank Account and deposited Rs. 4,000 each.

Ramesh purchased 8 tonnes of an item @ Rs. 600 per ton and his expenses were Rs 1,300 Suresh purchased a second item of 100 tons @ Rs. 21 per ton and his expenses were Rs. 1,100. Expenses were met from private sources and purchases were paid for from Joint Bank Account.

Suresh sold [redacted] tons of the first item @ Rs. 1,000 per ton and his selling expenses were Rs. 1,150. Ramesh sold [redacted] tons of the second item @ Rs. 50 per ton and his selling expenses were Rs. 1,200. All the sale proceeds were deposited in Joint Bank Account and expenses were met from private sources.

Prepare the following Accounts in the books of Joint Venture of Ramesh and Suresh:

(*a*) Joint Venture Account.
(*b*) Joint Venturer's Accounts.
(*c*) Joint Bank Account.
(*d*) Working of closing stock valuation.

(I.I.B. Part I, November 1979)

Solution:

JOINT VENTURE ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Joint Bank A/c (Purchases of 8 tonnes of item No. 1 @ Rs. 600 per ton)	4,800	By Joint Bank A/c (Sale proceeds of 6 tons of item No. 1 @ Rs. 1,000)	6,000
To Ramesh (Expenses on purchase of item No. 1)	1,300	By Joint Bank A/c (Sales proceeds of 80 tons of item No. 2 @ Rs. 50)	4,000
To Joint Bank A/c (Purchase of 100 tons of item No. 2 @ Rs. 21 per tons)	2,100	By Ramesh Stock of 20 tons of item No. 2 @ Rs. 32 $\left(\frac{2,100+1,100}{100}\right)$	640
To Suresh (Expenses on purchase of item No. 2)	1,100	By Suresh	
To Suresh (Expenses on sale of [redacted] tons of item No. 1)	1,150	Stock of 2 tons of item No. 1 @ Rs. 762·50 $\left(\frac{4,800+1,300}{8}\right)$	1,525
Total c/fd	10,450	Total c/fd	12,165

Particulars		Rs.	Particulars	Rs.
Tota b/fd		10,450	Total b/fd	12,165
To Ramesh (Expenses on sale of 80 tons of item No. 2)		1,200		
To Profit on Joint Venture transferred to:				
Ramesh (3/5th share)	309			
Suresh (2/5th share)	206	515		
		12,165		12,165

Note: It is assumed that the stock of item No. 1 purchased by Ramesh and sold by Suresh is lying with Suresh and stock of item No. 2 purchased by Suresh and sold by Ramesh is lying with Ramesh.

Dr. JOINT VENTURERS' ACCOUNT *Cr.*

Particulars	*Ramesh*	*Suresh*	*Particulars*	*Ramesh*	*Suresh*
	Rs.	Rs.		Rs.	Rs.
To Joint Venture A/c (Stock taken over)	640	1,525	By Joint Bank A/c (Initial deposits)	4,000	4,000
To Joint Bank A/c (Balance paid to them)	6,169	4,931	By Joint Venture A/c (Purchase expenses)	1,300	1,100
			By Joint Venture A/c (Sales expenses)	1,200	1,150
			By Joint Venture A/c (Profit)	309	206
	6,809	6,456		6,809	6,456

Dr. JOINT BANK ACCOUNT *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Ramesh (Initial deposit)	4,000	By Joint Venture A/c (Purchases of item No. 1)	4,800
To Suresh (Initial deposit)	4,000	By Joint Venture (Purchases of item No. 1)	2,100
To Joint Venture (Sales proceeds of item No. 1)	6,000	By Ramesh (Balance of his account paid)	6,169
To Joint Venture (Sales proceeds of item No. 2)	4,000	By Suresh (Balance of his account paid)	4,931
	18,000		18,000

Problem 13. Gopal and Ahmed undertook jointly to construct a building for a contract price of Rs. 3,00,000. A joint banking account was opened by them in their joint names. Gopal paid into it Rs. 1,00,000 and Ahmed Rs. 50,000. Profit and Loss is to be distributed in ratio of 2 : 1. The details of transactions made are given below :—

	Rs.
Wages	80,000
Materials purchased	1,60,000
Materials supplied by Gopal	10,000
Materials supplied by Ahmed	8,000
Gopal paid the Architect's fee	4,000

After the completion of contract, the price was duly received. There was stock of unused materials which were valued at Rs. 10,000 and this was taken over by Ahmed. Prepare Joint Venture A/c and Joint Bank A/c.

(I.I.B. Part I, May 1982)

Solution :

Dr. JOINT VENTURE ACCOUNT *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Joint Bank A/c			By Joint Bank		
Wages	80,000		(Price of		
Materials purchased	1,60,000	2,40,000	contract received)		3,00,000
			By Ahmed		
To Gopal (Materials supplied)		10,000	(Stock taken over)		10,000
To Ahmed (Materials supplied)		8,000			
To Gopal (Architect's fee)		4,000			
To Profit on Jt. Venture transferred to :					
Gopal (2/3rd)	32,000				
Ahmed (1/3rd)	16,000	48,000			
		3,10,000			3,10,000

Dr. CO-VENTURER'S ACCOUNTS Cr.

Particulars	Gopal	Ahmed	Particulars	Gopal	Ahmed
	Rs.	Rs.		Rs.	Rs.
To Jt. Venture (Stock taken over)	—	10,000	By Jt. Bank A/c (cash introduced)	1,00,000	50,000
To Jt. Bank A/c (Balance paid to them)	1,46,000	64,000	By Jt. Venture A/c (Materials)	10,000	8,000
			By Jt. Venture A/c (Architect's fee)	4,000	—
			By Jt. Venture A/c (Share in profits)	32,000	16,000
	1,46,000	74,000		1,46,000	74,000

Dr. JOINT BANK ACCOUNT Cr.

Particulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Gopal		1,00,000	By Joint Venture:		
To Ahmed		50,000	Wages	80,000	—
To Joint Venture (Proceeds of the contract received)		3,00,000	Material purchsed	1,60,000	2,40,000
			By Gopal (Balance of his account paid)		1,46,000
			By Ahmed (Balance of his account paid)		64,000
		4,50,000			4,50,000

Problem 14. Varma and Manik, both Building Contractors, undertook a Joint Venture involving the constructing of a school building. The Joint Bank Account was opened in which Varma deposited Rs. 50,000 and Manik deposited Rs. 25,000. The contract amount was Rs. 2,50,000. The result of Joint Venture was to be shared as to Varma 2/3rd and Manik 1/3rd. The details of the transactions were as under :

(1) Salaries Rs. 8,000.

(2) Wages paid Rs. 46,000.

(3) Building materials purchased Rs. 1,10,000.

(4) Materials supplied by Varma Rs. 9,000.
(5) Materials supplied by Manik Rs. 8,000.
(6) Architect's fees Rs. 7,000.
(7) Cartage Rs. 12,000.
(8) Concrete mixer plant purchased Rs. 25,000.

The stock of the materials on the completion of the contract, valued at Rs. 11,000 was taken over by Varma. Concrete mixer plant was sold out for Rs 20,000. Mr. Varma was to be paid Rs. 12,000 per annum against establishment expenses, to be charged to the Joint Venture Account. The contract lasted for 8 months.

Prepare a Joint Venture Account, Joint Bank Account and Accounts of Varma and Manik.

(I.I B. Part I, November 1975)

Solution:

Dr. JOINT VENTURE ACCOUNT *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Joint Bank A/c:			By Joint Bank A/c (Amount of the contract received)		2,50,000
Salaries	8,000		By Varma (Material taken over)		11,000
Wages	46,000		By Joint Bank A/c (Sales proceeds of Concrete Mixer Plant)		20,000
Purchase of building material	1,10,000				
Architect's fees	7,000				
Cartage	12,000				
Concrete Mixer Plant	25,000	2,08,000			
To Varma (Material supplied)		9,000			
To Manik (Material supplied)		8,000			
To Varma (Establishment expenses for 8 months @ Rs. 12,000 p.a.)		8,000			
To Profit on Joint Venture transferred to:					
Varma (2/3rd share)	32,000				
Manik (1/3rd share)	16,000	48,000			
		2,81,000			2,81,000

JOINT BANK ACCOUNT

Dr. Cr.

Particulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Varma (Capital introduced)		50,000	By Joint Venture A/c:		
To Manik (Capital introduced)		25,000	Salaries	8,000	
			Wages	46,000	
To Joint Venture A/c (Concrets Mixer Plant sold)		20,000	Building material	1,10,000	
			Architect's fees	7,000	
			Cartage	12,000	
To Joint Venture A/c: (Proceeds of the contract received)		2,50,000	Concrete Mixer Plant (purchased)	25,000	2,08,000
			By Varma (Balance of his account paid)		88,000
			By Manik (Balance of his account paid)		49,000
		3,45,000			3,45,000

CO-VENTURER's ACCOUNTS

Dr. Cr.

Particulars	Varma	Manik	Particulars	Varma	Manik
	Rs.	Rs.		Rs-	Rs.
To Joint Venture A/c (Material taken over)	11,000	—	By Joint Bank A/c (Capital introduced)	50,000	25,000
To Joint Bank A/c (Balance amount paid to them)	88,000	49,000	By Joint Venture A/c (Material supplied)	9,000	8,000
			By Joint Venture A/c (Establishment expenses for 8 months @ Rs 12,000 per annum)	8,000	—
			By Joint Venture A/c (shares in the profits)	32,000	16,000
	99,000	49,000		99,000	49,000

Problem 15. A and B enter into Joint Venture. A agrees to bring capital in cash.

Accordingly, a Joint Banking Account is opened by A for a sum of Rs. 80,000.

B buys goods worth Rs. 50,000 as part of his share of capital. Further goods worth Rs. 28,000 and Rs. 90,000 were purchased from C paying Rs. 60,000 and the balance by a Promissory Note jointly signed by A and B.

The goods were sent to Calcutta for sale. Expenses totalling to Rs. 5,000 were incurred in sending the goods. Part of the goods was damaged and a sum of Rs. 25,000 was recovered from the Insurance Co. The balance of goods was sold for Rs. 2,20,000.

Prepare Joint Venture Account, Joint Banking Account and accounts of A and B, assuming that the Promissory Note was duly honoured. A and B share profits equally.

(I.I.B. Part I, October 1971)

Solution:

JOINT VENTURE ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
	To B (Goods supplied)		50,000		By Joint Banking A/c (Insurance claim recovered for the part of the goods damaged)		25,000
	To C (Goods purchased on credit: Rs. 28,000 Rs. 90,000)		1,18,000				
	To Joint Banking A/c (Expenses for sending the goods)		5,000		By Joint Banking A/c (Sale proceeds of balance of goods)		2,20,000
	To Profit on Joint Venture transferred to the capital accounts of: A (½ share) Rs. 36,000 B (½ share) Rs. 36,000		72,000				
			2,45,000				2,45,000

JOINT BANKING ACCOUNT

Dr.							Cr.
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To A (Capital introduced)		80,000		By C (Part payment)		60,00
	To Joint Venture A/c (Insurance claim)		25,000		By Joint Venture A/c (Expenses)		5,00
	To Joint Venture A/c (Sale proceeds)		2,20,000		By Bill Payable (Promissory Note accepted in favour of C paid)		58,00
					By A (Balance in his account paid to him)		1,16,00
					By B (Balance in his account paid to him)		86,00
			3,25,000				3,25,00

C's ACCOUNT

Dr.			Cr
	Rs.		Rs.
To Joint Banking A/c	60,000	By Joint Venture A/c (Goods supplied by him: Rs. 28,000 Rs. 90,000)	1,18,00
To Bills Payable A/c	58,000		
	1,18,000		1,18,00

BILLS PAYABLE ACCOUNT

Dr.			
	Rs.		Rs
To Joint Banking A/c	58,000	By Cash A/c	58,0
	58,000		58

Dr. A's CAPITAL ACCOUNT Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To Joint Banking A/c (*Balancing figure*)		1,16,000		By Joint Banking A/c		80,000
					By Joint Venture A/c		36,000
			1,16,000				1,16,000

Dr. B's CAPITAL ACCOUNT Cr.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.
	To Joint Banking A/c (*Balancing figure*)		86,000		By Joint Venture A/c		50,000
					By Joint Venture A/c		36,000
			86,000				86,000

Problem 16. A, B and C enter into a Joint Venture to divide profits equally. They bought goods from D for Rs. 1,25,000 and from A for Rs. 25,000. A contributed Rs. 30,000, B Rs. 40,000 and C Rs. 90,000 which amounts were banked in a joint account. They settled their account with D by cheque and paid for carriage and other expenses Rs. 7,500. They sold goods for cash Rs. 65,000 and to E on credit for Rs. 1,40,000, who accepted a draft for the amount. The acceptance was cashed and realised Rs. 1,37,000. A was allowed 5% commission on sales for effecting the transactions.

Pass necessary journal entries and open accounts, assuming that the final settlement between parties was made by cheques.

(*I.I.B. Part, February 1966*)

Solution:

JOURNAL ENTRIES

Sl.	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
(1)	Joint Venture A/c	Dr.	1,50,000	
	To D's A/c			1,25,000
	To A's A/c			25,000
	(Being cost of goods purchased for the joint venture on credit)			

(2)	Joint Bank A/c	Dr.	1,60,000	
	To A's A/c			30,000
	To B's A/c			40,000
	To C's A/c			90,000
	(Being the amount contributed by the Co-ventures deposited into the bank in their joint names)			
(3)	D's A/c	Dr.	1,25,000	
	To Joint Bank A/c			1,25,000
	(Being payment made to D by cheque for goods purchased on credit from him)			
(4)	Joint Venture A/c	Dr.	7,500	
	To Joint Bank A/c			7,500
	(Being carriage and other expenses paid by cheque)			
(5)	Joint Bank A/c	Dr.	65,000	
	E's A/c	Dr.	1,40,000	
	To Joint Venture A/c			2,05000
	(Being the sale proceeds of goods —sold partly in cash depositing the amount in the bank and partly to E on credit)			
	Bills Receivable A/c	Dr.	1,40,000	
	To E's A/c			1,40,000
	(Being E accepted the bill drawn upon him in payment of the sales made to him)			
(7)	Joint Bank A/c	Dr.	1,37,000	
	Joint Venture A/c	Dr.	3,000	
	To Bills Receivable A/c			1,40,000
	(Being the bills received from E got discounted from the Bank)			
(8)	Joint Venture A/c	Dr.	10,250	
	To A's A/c			10,250
	(Being commission allowed to A @ 5% on the total sales proceeds amounting to Rs. 2,05,000)			

(9)	Joint Venture A/c	Dr.	34,250	
	To A's A/c			11,416
	To B's A/c			11,417
	To C's A/c			11,417
	(Being profit on account of Joint Venture divided equally among the Co-venturers)			
(10)	A's A/c	Dr.	76,666	
	B's A/c	Dr.	51,417	
	C's A/c	Dr.	1,01,417	
	To Joint Bank A/c			2,29,500
	(Being the balance due to Co-venturers settled by issuing cheques to them)			

Ledger Accounts:

Dr. JOINT VENTURE ACCOUNT *Cr.*

Sl.	*Particulars*	*L.F.*	*Amount*	*Sl.*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
(1)	To D (Goods bought)		1,25,000	(5)	By Joint Bank (Cash sales)		65,000
	To A (Goods bought)		25,000		By E (Credit sales)		1,40,000
(4)	To Joint Bank (Expenses & carriage)		7,500				
(7)	To Bills Receivable (Discount)		3,000				
(8)	To A (Commission)		10,250				
(9)	To Profit Transferred to: A Rs. 11,416 B Rs. 11,417 C Rs. 11,417		34,250				
			2,05,000				2,05,000

JOINT BANK ACCOUNT

Cr. Dr.

Sl.	Particulars	L.F.	Amount	Sl.	Particulars	L.F.	Amount
			Rs.				Rs.
(2)	To A		30,000	(3)	By D		1,25,000
	To B		40,000	(4)	By Joint VentureA/ c		7,500
	To C		90,000	(10)	By A		76,666
(5)	To Joint Venture A/c		65,000		By B		51,417
(7)	To Bills Receivable A/c		1,37,000		By C		1,01,417
			3,62,000				3,62,000

A's ACCOUNT

Dr. Cr.

		Rs.			Rs.
(10)	To Joint Bank A/c	76,666	(1)	By Joint Venture A/c	25,000
			(2)	By Joint Bank A/c	30,000
			(8)	By Joint Venture A/c	10,250
			(9)	By Joint Venture A/c	11,416
		76,666			76,666

B's ACCOUNT

Dr. Cr.

		Rs.			Rs.
(10)	To Joint Bank A/c	51,417	(2)	By Joint Bank A/c	40,000
			(9)	By Joint Venture A/c	11,417
		51,417			51,417

C's ACCOUNT

Dr. Cr.

		Rs.			Rs.
(10)	To Joint Bank A/c	1,01,417	(2)	By Joint Bank A/c	90,000
			(9)	By Joint Venture A/c	11,417
		1,01,417			1,01,417

Problem 17. Kalyan and Anand enter into a joint venture to share profits and losses equally, resulting from dealings in second hand cars. Both of them take an active part in the business, each recording his own transactions only. They have no joint banking account or separate set of books.

The following are the transactions of the joint venture:

1977

Jan. 1 Kalyan buys three cars for Rs. 18,000.

,, 31 Kalyan pays for repairs and repairing of cars Rs. 1,200.

Mar. 31 Anand pays garage rent Rs. 400 and advertising expenses Rs. 200.

Apr. 15 Anand pays for licence, insurance etc. Rs. 720.

Aug. 15 Anand buys a car in good condition for Rs. 2,000.

Aug. 31 Kalyan sells these four cars for a total sum of Rs. 32,000.

Show the Joint Venture account in the books of Kalyan.

(I.I.B. Part I, November 1977)

Solution:

Ledger Account in the books of Kalyan:

Dr. JOINT VENTURE ACCOUNT WITH ANAND *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
			Rs.				Rs.
Jan. 1	To Cash (Purchase of 3 cars)		18,000	Aug. 31	By Cash (Sales proceeds of 4 cars)		32,000
Jan. 31	To Cash (Repair charges)		1,200				
Aug. 31	To Profit & Loss Account (½ share in profits)		4,740				
Aug. 31	To Balance c/d (Amount payable to Anand)		8,060				
			32,000				

Ledger Account in the books of Anand:

Date	*Particulars*	*Details*	*Amount*	*Date*	*Particulars*	*Details*	*Amouut*
1977		Rs.	Rs.	1977		Rs.	Rs.
Mar. 31	To Cash: Garage rent	400		Aug. 31	By Balance c/d (Amount receivable from Kalyan)		8,060
	Advertising expenses	200	600				
Apr. 15	To Cash (Licence, Insurance, etc.)		720				
Aug. 15	To Cash (Purchase of one car)		2,000				
Aug. 31	To Profit & Loss Account (½ share in profits)		4,740				
			8,060				8,060

rkings :

In order to ascertain the profit or loss made on account of joint nture, they will prepare a Memorandum Joint Venture Account as shown here under :

MEMORANDUM JOINT VENTURE ACCOUNT

Dr. Cr.

Date	Particulars	Details	Amount	Date	Particulars	Details	Amount
1977		Rs.	Rs.	1977		Rs.	Rs.
Jan. 1	To Kalyan (Purchase of 3 cars)		18,000	Aug. 31	By Kalyan (Sale of 4 cars)		32,000
Jan. 31	To Kalyan (Repairs)		1,200				
Mar. 31	To Anand: Garage rent	400					
	Advertising expenses	200	600				
Apr 15	To Anand (Licence, Insurance, etc.)		720				
Aug. 15	To Anand (Purchase of one car)		2,000				
Aug. 31	To Profit on joint venture transferred to : Kalyan (½ share)	4,740					
	Anand (½ share)	4,740	9,480				
			32,000				32,000

C

ACCOUNTS CURRENT

Problem 1. What do you understand by an Account Current? Explain the various methods for calculating interest in an Account Current.

Solution An Account Current is an account of the transactions between two parties during a particular period in which interest is calculated at an agreed rate on each item and is shown in the account.

In the heading of the Account Current, the name of the party to whom it is sent, is shown first, then comes the words 'in Account Current with' and then the name of the sender is given. Thus, if A sends the account current to B, the heading of the account will be 'B in Account Current with A'.

Solution :

(Interest Table Method)

A IN ACCOUNT CURRENT WITH B
as on 30th June, 1978

Dr.									Cr.
Date	*Particulars*	*Amount*	*Days*	*Interest*	*Date*	*Particulars*	*Amount*	*Days*	*Interest*
		Rs. P.		Rs. P.			Rs. P.		Rs. P.
1978					1978				
Feb. 16	To Sales	6,480·00	134	237·90	Jan. 1	By Balance b/d	3,010·00	181	149·26
Mar. 24	To Sales	3,560·00	98	95·58	Jan. 7	By Purchases	4,430·00	174	211·18
June 22	To Sales	2,280·00	8	5·00	Feb. 18	By Returns inwards	560·00	132	20·25
June 30	To Balance od Interest			127·08	Apr. 22	By B/R (due on 25th July, 1978)	1,500·00	*25	*10 27
June 30	To Balance c/f	2,497·08			Apr. 29	By Cash	2,500·00	62	42·47
					May 17	By Purchases	2,710·00	44	32·67
					June 30	By Interest	107·08		
		14,817·08		445·56			14,817·08		445·56

*Denotes red ink interest.

Solution :

(Products Method)

A IN ACCOUNT CURRENT WITH B

as on 30th June, 1978

Dr. | *Cr*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
1978		Rs. P.			1978		Rs. P.		
Feb. 16	To Sales	6,480·00	134	8,68,320	Jan. 1	By Balance b/d	3,010·00	181	5,44,810
Mar. 24	To Sales	3,560·00	98	3,48,880	Jan. 7	By Purchases	4,430·00	174	7,70,820
June 22	To Sales	2,280·00	8	18,240	Feb. 18	By Returns inward	560·00	132	73,920
June 30	To Balance of products			3,90,850	Apr. 22	By B/R (due on 25th July, 1978)	1,500·00	*25	*37,500
June 30	To Balance c/d	2,497·08			Apr. 29	By Cash	2,500·00	62	1,55,000
					May 17	By Purchases	2,710·00	44	1,19,240
					June 30	By Interest on balance of products $\left(\frac{3,90,850 \times 10}{100 \times 365}\right)$	107·08		
		14,817·08		16,26,290			14,817·08		16,26,290

*Denotes red ink interest.

Solution :

(Interest Number Method)

A IN ACCOUNT CURRENT WITH B

as on 30th June, 1978

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Days*	*Products (Interest Numbers)*	*Date*	*Particulars*	*Amount*	*Days*	*Products (Interest Numbers)*
1978		Rs. P.			1978		Rs. P.		
Feb. 16	To Sales	6,480·00	134	8,683	Jan. 1	By Balance b/d	3,010·00	181	5,448
Mar. 24	To Sales	3,560·00	98	3,489	Jan. 7	By Purchases	4,430·00	174	7,708
June 22	To Sales	2,280·00	8	182	Feb. 18	By Returns inward	560·00	132	739
June 30	To Balance of products				Apr. 22	By B/R (due on 25th July, 1978)	1,500·00	*25	*375
June 30	To Balance c/d	2,497·08		3,908	Apr. 29	By Cash	2,500·00	62	1,550
					May 17	By Purchases	2,710·00	44	1,192
					June 30	By Interest : $\left(\frac{3,908 \times 10}{365}\right)$	107·08		
		14,817·08		16,262			14,817·08		16,262

*Denotes red ink interest.

A IN ACCOUNT CURRENT WITH B
as on 30th June, 1978

Date	Particulars	Debit Amount	Credit Amount	Dr. or Cr.	Balance	Days	Debit Products	Credit Products
1978		Rs. P.	Rs. P.		Rs. P.			
Jan. 1	By Balance b/d		3,010·00	Cr.	3,010·00	7		21,070
Jan. 7	By Purchases		4,430 00	Cr.	7,440·00	40		2,97,600
Feb. 16	To Sales	6,480·00		Cr.	960·00	2		1,920
Feb. 18	By Returns Inward		560 00	Cr.	1,520·00	34		51,680
Mar 24	To Sales	3,560·00		Dr.	2,040·00	29	59,160	
Apr 22	By B R (Due on 25th July, 1978)		1,500 00	Dr.	540·00	7	3,780	
	* Products on Rs. 1,500 for 94 days, i.e., from 22nd April to 25th July						1,41,000	
Apr 29	By Cash		2,500 00	Cr.	1,960 00	18		35,280
May 17	By Purchases		2,710 00	Cr.	4,670·00	36		1,68,120
June 22	To Sales	2,280·00		Cr.	2,390 00	8		19,120
June 30	To Balance of products						3,90,850	
June 30	By Interest on Balance of products $\left(\frac{3,90,850 \times 10}{100 \times 365}\right)$		107·08	Cr.	2,497·08			
June 30	To Balance c/d	2,497 08						
		14,817 08	14,817 08			181	5,94,790	5,94,790

* Credit for the B/R is given on the date when it is received, but its proceeds will be received only after its maturity. Hence the products for the period for which the bill is to run have been debited.

Problem 3. Make out an account current to be submitted by Mafatlal to Fogatlal on 30th September, 1978 in respect of the following transactions appearing in the books of Mafatlal:

1978			Rs.
July	1	Debit balance b/d	13,500
"	5	Sold goods to Fogatlal	9,000
"	15	Received cash from Fogatlal	13,500
Aug.	4	Sold goods to Fogatlal	19,200
"	15	Received cash from Fogatlal	9,000
Sept.	1	Bought goods from Fogatlal	21,000
"	1	Paid cash to Fogatlal	7,500
"	12	Sold goods to Fogatlal	9,600
"	15	Paid cash to Fogatlal	6,000

Interest to be taken into account at 10% per annum, calculated to nearest rupee. (*I.I.B. Part I, April 1979*)

Solution :

(Interest Table Method)

FOGATLAL IN ACCOUNT CURRENT WITH MAFATLAL

as on 30th September, 1978

Dr.									Cr.
Date	*Particulars*	*Amount*	*Days*	*Interest*	*Date*	*Particulars*	*Amount*	*Days*	*Interest*
1978		Rs. P.		Rs. P.	1978		Rs. P.		Rs. P.
July 1	To Balance b/d	13,500 00	92	340·27	July 15	By Cash	13,500 00	77	284·80
„ 5	To Sales	9,000 00	87	214·52	Aug. 15	By Cash	9,000 00	46	113·42
Aug. 4	To Sales	19,200 00	57	299·83	Sept. 1	By purchases	21,000·00	29	166·85
Sept. 1	To Cash	7,500·00	29	59·59	„ 30	By Balance of interest			421·15
„ 12	To Sales	9,600·00	18	47·34	„ 30	By Balance c/d	21,721·15		
„ 15	To Cash	6,000 00	15	24·67					
„ 30	To Interest	421·15							
		65,221·15		986·22			65,221·15		986·22

Solution :
(Products Method)

FOGATLAL IN ACCOUNT CURRENT WITH MAFATLAL
as on 30th September, 1978

Dr.									Cr.
Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
		Rs. P.					Rs. P.		
1978					1978				
July 1	To Balance b/d	13,500·00	92	12,42,000	July 15	By Cash	13,500·00	77	10,39,500
,, 5	To Sales	9,000·00	87	7,83,000	Aug. 15	By Cash	9,000 00	46	4,14,000
Aug. 4	To Sales	19,200·00	57	10,94,400	Sept. 1	By Purchases	21,000·00	29	6,09,000
Sept. 1	To Cash	7,500·00	29	2,17,500	,, 30	By Balance of products			15,37,200
,, 12	To Sales	9,600·00	18	1,72,800	,, 30	By Balance c/d	21,721·15		
,, 15	To Cash	6,000·00	15	90,000					
,, 30	To Interest on balance of products $\left(\frac{15,37,200 \times 10}{100 \times 365}\right)$	421·15							
		65,221·15		35,99,700			65,221·15		35,99,700

Solution :

(Periodical Balance Method)

FOGATLAL IN ACCOUNT CURRENT WITH MAFATLAL

as on 30th September, 1978

Date		Particulars	Debit Amount	Credit Amount	Dr. or Cr.	Balance	Days	Debit Products	Credit Products
			Rs. P.	Rs. P.		Rs. P.			
1978									
July	1	To Balance b/d	13,500·00		Dr.	13,500·00	5	67,500	
,,	5	To Sales	9,000·00		Dr.	22,500·00	10	2,25,000	
,,	15	By Cash		13,500 00	Dr.	9,000·00	20	1,80,000	
Aug.	4	To Sales	19,200·00		Dr.	28,200·00	11	3,10,200	
,,	15	By Cash		9,000·00	Dr.	19,200·00	17	3,26,400	
Sept.	1	By Purchases		21,000·00	Cr.	1,800·00	—	—	
,,	1	To Cash	7,500·00		Dr.	5,700·00	11	62,700	
,,	12	To Sales	9,600·00		Dr.	15,300·00	3	45,900	
,,	15	To Cash	6,000·00		Dr.	21,300·00	15	3,19,500	
,,	30	By Balance of Products							15,37,200
Sept.	30	To Interest on balance of products $\left(\frac{15,37,200 \times 10}{100 \times 365}\right)$	421·15		Dr.	21,721·15			
,,	30	By Balance c/f		21,721·15					
			65,221·15	65,221·15			92	15,37,200	15,37,200

E

AVERAGE DUE DATE

Problem 1. What do you mean by Average due date ? How it is calculated ?

Solution. When a person owes a number of debts to another person due on different dates, he should make the payment of these debts on the respective due dates Sometimes they decide to settle these debts in a lump sum on one particular date when neither party suffer any loss of interest due to such single payment. Such a date is known as Average Due Date, which is calculated in the following manner.

(*a*) Take one of the due dates as the base date, preferably to take the due date of first transaction.

(*b*) Calculate the number of days from the base date to the due date of each transaction.

(*c*) Multiply the number of days so calculated by the corresponding amount of transaction.

(*d*) *Total the amounts of transactions and the amount of the* products separately.

(*e*) Divide the total of the products by the total amount of all transaction. This gives the number of days the average due date is away from the base date.

(*f*) Add the number of days to the base date and thus arrive at the average due date.

In case the amount due is not settled on the average due date, but on a subsequent date, interest will be calculated on the total sum from the average due date to the date of settlement.

Calculation of Interest

Average due date is such a date when there is no loss to both the [illegible] ent is not made on that [illegible]

Firstly number of days are calculated from the average due date to the date of payment and then interest is calculated on the amount due for the said period at the agreed rate of interest.

Problem 2. X and Y have the following transactions during the half year ended 30th June 1981 :

1981		Rs.
January 12	X sells goods to Y	750
January 18	Y sells goods to X	1,000
February 8	X accepts Y's draft at 2 months	600
March 4	X pays cash	350
April 26	Y sends his acceptance at one month	1,000
May 3	X sells goods to Y	800
June 15	X pays cash	700
June 30	settlement made.	

Interest is to be charged at 9% per annum. Find out—

(1) The average due date and

(2) Calculate interest. *(I I B, Part I, Nov. 1981)*

Solution:

Taking January 12, 1981 as zero date.

Y IN ACCOUNT CURRENT WITH X

Dr. *Cr.*

Due Date	*Particulars*	*Days*	*Amount*	*Products*	*Due Date*	*Particulars*	*Days*	*Amount*	*Products*
			Rs.	Rs. P.				Rs.	Rs. P.
1981					1981				
Jan. 12	To Sales	0	750	0	Jan. 18	By Purchases	6	1,000	6,000
Feb. 8	To B/P	27	600	16,200	Apr. 26	By B/R	104	1,000	1,04,000
Mar. 4	To Cash	51	350	17,850		By Balance		1,200	1,20,650
May 5	To Sales	111	800	88,800					
Jan. 15	To Cash	154	700	107,800					
			3,200	2,30,650				3,200	2,30,650

$$\text{Average due date} = \text{Zero date} + \frac{\text{Balance of Products}}{\text{Balance of Payment}}$$

$$= \text{Jan. } 12,\ 1981 + \frac{1{,}20{,}650}{1{,}200}$$

$$= \text{Jan. } 12,\ 1981 + 100{\cdot}54 \text{ days (say 101 days)}$$

$$= \text{April } 23,\ 1981$$

Interest will be calculated from 3rd April 1981 to 30 June 1981, *i.e.* for 68 days.

$$\text{Interest} = \frac{68}{365} \times \frac{9}{100} \times \frac{\text{Rs. } 1{,}200}{1} = \text{Rs. } 20{\cdot}12$$

F

INVESTMENT AND SHARE TRANSACTIONS

Problem 1. Is it necessary to keep Investment Accounts separately in the business ? Explain briefly the accounting treatment for recording Sale and Purchase transactions of Investment.

Solution. When a business concern invests its surplus funds in Government securities, Shares, or Debentures of companies, it is desirable to keep separate account for each such Security/Investment so that the correct profit or loss on their purchase or sale transactions can be ascertained.

The investment and share transactions are separated from other type of business transactions, because of the following peculiarities in such transactions :

(1) The face value of most of the investments is generally different from their market value (Real price). If there is more demand, they are sold for a price, which is higher than their face value ; and if the demand is less, they are sold at a lesser price than their face value.

(2) Dividend or interest is paid by the companies or Government to one and only one party, *i.e.*, the party whose name appears in the register of members.

(3) Dividend or interest is paid for a full period, say, yearly or half yearly.

If the investments or shares are sold or purchased on the date when the interest or dividend is payable, the transactions become easier because there is no dispute over interest or dividend, and the price paid or received is the real price, including brokerage, stamp duty, transfer fees, etc.

However, if such a security is purchased or sold on a day other than the date of declaration of interest or dividend by the Government or the company, then a problem of settlement of interest or dividend between the buyer and the seller is posed. Any price paid by the purchaser to the seller is affected by the interest/dividend, and hence is not the real price of the security. This price is called either *cum-interest* (*cum-dividend*) price or *ex-interest* (*ex-dividend*) price.

Cum-interest (cum-dividend) price. When the security is sold or purchased on any date other than the date of declaration of interest/dividend, and it is agreed that the right of receiving the next interest/dividend for the full period shall lie with the buyer, then the price quoted will be the actual price for the security *plus* interest/dividend for the period for which the seller kept the security with him. This price is called *cum-interest/cum-dividend* price.

Ex-interest (ex-dividend) price. When the security is sold or purchased on any date other than the date of declaration of interest/

dividend, and it is decided that next interest/dividend for the full period is to be received by the *seller* (even after sale of security) then the price quoted will be the actual price for security *less* interest/dividend for the period from the date of sale to the date of next declaration of interest/dividend (*i.e.*, for the forthcoming period, for which actually the buyer is entitled). This price is called *ex-interest/ex-dividend* price.

Ruling:

Investment accounts are ruled in such a manner, so as to exhibit not only their purchase and sale values (*cost*) but also their face values, and interest/dividend.

INVESTMENT ACCOUNT

for the.........(*Period*) ended.........(*date*)

Dr. *Cr.*

Date	*Particulars*	*Face Value*	*Cost*	*Interest/ Dividend*	*Date*	*Particulars*	*Face Value*	*Cost*	*Interest/ Dividend*
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.

Workings

(*a*) Calculate total *cum-interest* (*cum-dividend*) or *ex-interest* (*ex-dividend*) price.

(*b*) Calculate interest or dividend for *past* period in *cum-interest* (*cum-dividend*) price, or calculate interest or dividend for *future* period in *ex-interest* (*ex-dividend*) price.

(*c*) Calculate real price, by deducting interest (or dividend) of the *past* period from *cum-interest* (*cum-dividend*) price or by adding interest (or dividend) of the *future* period to *ex-interest* (*ex-dividend*) price.

Accounting Treatment

(1) (*a*) For purchasing investments or shares :

Investment A/c Dr.
To Bank or Seller's A/c
(Being purchase of investment at ......(*price*) each including brokerage, stamp duty, transfer fees, etc.)

(*b*) For purchasing investments or shares at cum interest (cum-dividend) price:

Investment A/c Dr.
Interest/Dividend A/c Dr.
To Bank or Seller's A/c

[Being purchase of investments at ... . (*price*) cum-interest (cum-dividend]

(*c*) For purchasing investments or shares at ex-interest (ex-dividend) price:

Investment A/c Dr.
To Bank or Seller's A/c
To Interest/Dividend A/c

[Being purchase of investments at...... (*price*) ex-interest (ex-dividend)]

(II) For receipt of interest/dividend in case of cum-interest (cum-dividend)

Bank A/c Dr.
To Interest A/c

[Being interest for...............(*period*) received]

(III) (*a*) For Selling investments or shares:

Bank or Buyer's A/c Dr.
To Investments A/c

[Being sale of investments at........... (*price*)]

(*b*) For selling investments or shares at cum-interest (cum-dividend) price:

Bank or Buyer's A/c Dr.
To Investments A/c
To Interest/Dividend A/c

[Being sale of investments at.... (*price*) cum-interest (cum-dividend)]

(c) For selling investments or shares at ex-interest (ex-dividend) price :

Bank or Buyer's A/c	Dr.
Interest/Dividend A/c	Dr.
To Investments A/c	
[Being sale of investments at.....(*price*) ex-interest (ex-dividend)]	

(IV) For receipt of interest/dividend in case of ex-interest (ex-dividend)

Bank A/c	Dr.
To Interest/Dividend A/c	
[Being interest for...............(*period*) received]	

At the end of the accounting period, or when all the investments are sold, whichever is earlier, the balance of interest or dividend columns is transferred to the Profit and Loss account. Any profit or loss on sale of investments is also transferred to the Profit and Loss account. 'Face value' and 'Cost' columns in the investment account are balanced like other real accounts, and the balance is carried forward to the next period.

Problem 2. From the following particulars prepare an Investment Account for the year ended 31st December 1970. (Ignore Income Tax).

Balance of 3% Govt. Promissory Notes 1986 as on 1st Jan. 1970, Rs. 1,00,000.

The cost of the these notes was Rs. 76,000. Interest on the same was last received upto 15th September, 1969. On 1st April 1970 further securities worth Rs. 30,000 were purchased for Rs. 18,000. On 16th September 1970, Rs. 20,000 worth of securities were sold for Rs. 11,600. The brokers charge brokerage at 25 paise on Rs. 100 whilst buying and selling.

Interest is receivable on 15th March and 15th Septemher.

(*I.I.B. Part I, October 1971*)

Solution:

INVESTMENT ACCOUNT
for the year ended 31st December, 1970

3% Govt. Promissory Notes 1986

Interest Payable on :
15th March & 15th September

Dr. *Cr.*

Date	*Particulars*	*Face Value*	*Cost*	*Interest*	*Date*	*Particulars*	*Face Value*	*Cost*	*Interest*
1970		Rs.	Rs.	Rs.	1970		Rs.	Rs.	Rs.
Jan. 1	To Balance b/d	1,00,000	76,000		Mar. 15	By Bank (Interest on Rs. 1,00,000 @ 3% for 6 *months*)			1 500
Apr. 1	To Bank (Purchase of securities) (Cost Rs. 18,000 *Plus* Brokerage Rs. 75, *i.e.*, 1/4% on Rs. 30,000)	30,000	18,075		Sept. 15	By Bank (Interest on Rs. 1,30,000 @ 3% for 6 months)			1,950
Dec. 31	To Profit & Loss A/c (Transfer of interest)			3,450	Sept. 16	By Bank (Sale proceeds of securities) (Sale Rs. 11,600 *Less* brokerage Rs. 50, *i.e.*, 1/4% on Rs. 20,000)	20,000	11,550	
					Dec. 31	By Profit & Loss A/c (Loss on sale of securities)		3,650	
					Dec. 31	By Balance c/d	1,10,000	78,875	
		1,30,000	94,075	3,450			1,30,000	94,075	3,450

Working Notes:

Loss on Sale of Securities:

It is assumed that the securities sold on 16th September, 1970 are from the lot of securities held as on 1.1.1970.

Therefore, the cost of the securities of the face value of Rs. 20,000 will be Rs. 15,200 $\left(\frac{76{,}000 \times 20{,}000}{1{,}00{,}000}\right)$.

These securities were sold for Rs. 11,600, but the net proceeds of the sale will be Rs. 11,550 (Rs. 11,600 *Less* Rs. 50 for brokerage, @ ¼% on Rs. 20,000, the face value).

Cost price	Rs.	15,200
Sale proceeds		11,550
Loss		3,650

Balance of Investments:

Investments of the face value of Rs. 80,000 out of the opening balance at a cost of Rs. 60,800, and
Investments of the face value of Rs. 30,000 purchased on 1st April 1970 at a cost of Rs. 18,075

Thus, face value is Rs. 1,10,000 and cost of investment is Rs. 78,875

Problem 3. Mr. A held on 1st January 1972 Rs. 1,00,000 of $3\frac{1}{2}$% Government Loan at Rs. 95,000. Three months interest had accrued. On 31st May he purchased a further Rs. 40,000 of the Loan @ Rs. 96 (net) cum interest. On 31st July, Rs. 30,000 of the Loan was sold at Rs. 94 (net) ex-interest. On 30th November Rs. 20,000 of the Loan was sold at Rs. 96 (net) cum-interest. Interest on the Loan was paid each year on 31st March and 30th September and was collected on 4th April and 5th October. The price of the Loan on 31st December 1972 was Rs. 96.

Draw up the Loan account. *Ignore income tax and paise.* (*I.I.B. Part I, November 1973*)

Solution: In the Books of A :

INVESTMENT ACCOUNT
for the year ended 31st December 1972

Interest Payable on : 31st March and 30th September

3½% Govt. Loan Account

Dr. | Cr.

Date	Particulars	Face Value	Cost	Interest	Date	Particulars	Face Value	Cost	Interest
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1972 Jan. 1	To Balance b/d (Interest accrued from 1-10-1971 to 31-12-1971, *i.e.*, for 3 months @ 3½% p.a. on Rs. 1,00,000)	1,00,000	95,000	875	1972 Apr. 4	By Bank (Interest on Rs. 1,00,000 @ 3½% for 6 months)			1,750
May 31	To Bank (Purchase of Loan) [Interest on Rs. 40,000 @ 3½% for 2 months, *i.e.*, Rs. 233 is *included* in the purchase price of Rs. 38,400, calculated at Rs. 96 (net) cum-interest] $\left(\text{Rs. }\frac{40,000 \times 96}{100}\right)$	40,000	38,167	233	July 31	By Bank (Sale of Loan) [Interest on Rs. 30,000 @ 3½% p.a. for a period of 4 months, *i.e.*, Rs. 350 is *excluded* from the cost of the sales amounting to Rs. 28,200 calculated at Rs. 94 (net) ex-interest] $\left(\text{Rs. }\frac{30,000 \times 94}{100}\right)$	30,000	28,200	350
					Oct. 5	By Bank (Interest on Rs. 1,10,000 @ 3½% for 6 months)			1,925
	Total c/fd	1,40,000	1,33,167	1,108		Total c/fd	30,000	28,200	4,025

1972		Rs.	Rs.	Rs.	1972		Rs.	Rs.	Rs.
	Total b/fd	1,40,000	1,33,167	1,108		Total b/fd	30,000	28,200	4,025
Dec. 31	To Profit & Loss a/c (Transfer of Interest)			3,821	Nov. 30	By Bank (Sale of Loan) [Interest on Rs. 20,000 @$3\frac{1}{2}$% p.a. for 2 months, *i.e.*, Rs. 117 is *included* in the total sale proceeds of Rs. 19,200 calculated at Rs. 96 (net) cum-interest] $\left(\text{Rs. } \frac{20,000 \times 96}{100}\right)$	20,000	19,083	117
					Dec. 31	By Profit & Loss A/c (Loss on sale of Loan)		217	
					Dec. 31	By Balance c/d (Interest accrued from 1-10-1972 to 31-12-1972, *i.e.*, for 3 months @ $3\frac{1}{2}$% p.a. on Rs. 90,000)	90,000	85,667	787
		1,40,000	1,33,167	4,929			1,40,000	1,33,167	4,929

Working Notes :

Loss on Sale of Securities :

It is assumed that the investments sold are from the lot of the loan held on 1st January, 1972.

Therefore, the cost of the loan of the face value of Rs. 50,000 (Rs. 30,000+Rs. 20,000) is Rs. 47,500 $\left(\frac{95{,}000 \times 50{,}000}{1{,}00{,}000}\right)$.

These loans were sold for Rs. 47,283 (on July 31 for Rs. 28,200+on November 30 for Rs. 19,083) as shown in the Investment Account.

Hence, there is a loss on sale of Loan amounting to Rs. 217 (Rs. 47,500—Rs. 47,283).

Balance of Investments :

Loan of the face value of Rs. 50,000 out of the opening balance at a cost of Rs. 47,500, and
Loan of the face value of Rs. 40,000 purchased on 31st May, 1972 at a cost of Rs. 38,167

Thus, face value is Rs. 90,000 and cost of the Loan is Rs. 85,667

Problem 4. Nutan Bharat Bank Ltd. held on 1st January 1975, 1,000 Equity Shares of Rs. 10 each in Double Century Ltd. at a book value of Rs. 14,250. It had the following further transactions during the year 1975 in respect of these shares :

(1) Purchased on 1st April 1975, 50 shares *cum dividend* for Rs. 850 (*including brokerage*) (the shares were immediately registered in its name).

(2) The Company declared and paid on 15th April 1975 dividend at 20%.

(3) The Company declared on 1st June 1975 a bonus issue of 3 shares for every 7 shares held in the Company.

(4) The Bank sold 450 shares on 1st July 1975 at Rs. 11·25 per share, and paid brokerage and transfer charges Rs. 25.

You are required to prepare the Investment Account in the Bank's Ledger in respect of these shares.

(*I.I.B. Part I, May 1976*)

Solution : In the Books of Nutan Bharat Bank Ltd. :

INVESTMENT ACCOUNT
for the year ended 31st December 1975

Equity Shares of Double Century Ltd.

Dr. | Cr.

Date	Particulars	No. of Shares	Face Value	Cost Paid	Dividend	Date	Particulars	No. of Shares	Face Value	Sale Proceeds	Dividend
			Rs.	Rs. P.	Rs.				Rs.	Rs. P.	Rs.
1975 Jan. 1	To balance b/d	1,000	10,000	14,250·00		1975 Apr. 15	By Bank A/c (Dividend @ 20% on the face value of Rs. 10,500)				2,100
Apr. 1	To Bank A/c (Purchase of shares) (Dividend @ 20% on Rs. 500, *i e.,* Rs. 100 is *included* in the purchase price of Rs. 850, these being *cum-dividend* shares)	50	500	750·00	100	July 1	By Bank A/c (Sale of shares) (450 shares sold at Rs. 11·25 per share for Rs. 5,062·50. Brokerage and transfer charges Rs. 25 deducted)	450	4,500	5,037·50	
June 1	To Bonus Issue (Against 1,050 shares held by the bank, they received 450 shares, *i.e.* in the ratio of 7 : 3)	450	4,500			Dec. 31	By Balance c/d	1,050	10,500	15,000·00	
	Total c/fd	1,500	15,000	15,000·00	100		Total c/fd	1,500	15,000	20,037·50	2,100

1975		Rs.	Rs.	Rs. P.	Rs.	1975			Rs.	Rs. P.	Rs.
	Total b/fd	1,500	15,000	15,000·00	100		Total b/fd	1,500	15,000	20,037·50	2,100
Dec. 31	To Profit & Loss A/c (Profit on sale of shares transferred)			5,037·50							
Dec. 31	To Profit & Loss A/c (Transfer of dividend)				2,000						
		1,500	15,000	20,037·50	2,100			1,500	15,000	20,037·50	2,100

Working Notes :

Profit on Sale of Shares :

It is assumed that the shares received on 1st June 1975 in the shape of bonus shares have been sold. As there is no cost involved on purchasing these shares, the total sale proceeds of Rs. 5,037·50 have been transferred to Profit & Loss Account as profit.

Balance of Shares :

1,000	Shares of the face value of Rs.	10,000	out of the opening balance at a cost of Rs.	14,250, and
50	Shares of the face value of Rs.	500	purchased on 1st April 1975 at a cost of Rs.	750
1,050	Shares of the face value of Rs.	10,500	are lying with the Bank at a cost of Rs.	15,000

Problem 5. During the year ended 31st December, 1976 Bear-Bull Investment Ltd. purchased and sold investments as per the following details:

31st March, 1976 Purchased 5,000 5% Debentures of Rs. 100 each of Bear Ltd. at Rs. 97, brokerage and stamp duty amounting t Rs. 12,800. Interest is payable on debentures on 1st July and 1st January.

1st May, 1976 Purchased 5,000 6% Cumulative Preference Shares of Rs. 100 each of Bull Ltd. at Rs. 95, brokerage and stamp duty being Rs 12,100. Dividends are payable on 30th June and 31st December.

1st July, 1976 Sold Rs. 3,00,000 Debentures of Bear Ltd. at Rs. 99 *less* brokerage etc. Rs. 1,800.

1st October, 1976 Purchased a further 2,000 6% Cumulative Preference Shares of Rs. 100 each of Bull Ltd. at Rs. 90, brokerage and stamp duty being Rs. 4,300.

Write up the Ledger Accounts of these two investments for the year 1976.

(I.I.B. Part I, May 1977)

Solution: ***Ledger Accounts in the Books of Bear-Bull Investment Ltd.***

INVESTMENT ACCOUNT

for the year ended 31st December 1976

(1)
5% Debentures of Bear Ltd. *Interest Payable on : 1st January & 1st July*

Dr *Cr.*

Date	*Particulars*	*Face Value*	*Cost*	*Interest*	*Date*	*Particulars*	*Face Value*	*Cost*	*Interest*
1976		Rs.	Rs.	Rs.	1976		Rs.	Rs.	Rs.
Mar. 31	To Bank (Purchases) (*The total payment made is Rs. 4,97,800; i.e., cost of 5,000 debentures @ Rs. 97 is Rs. 4,85,000 plus brokerage and stamp duty of Rs. 12,800. Interest on Rs. 5,00,000 @ 5% p.a. for 3 months i.e., Rs. 6,250 is included in the above said purchase price*)	5,00,000	4,91,550	6,250	July 1	By Bank (Interest on Rs. 5,00,000 @ 5% p. a. for 6 months received)			12,500
					July 1	By Bank (Sales) (For selling 3,000 debentures @ Rs. 99, the proceeds are Rs. 2,97,000. As they have paid brokerage of Rs. 1,800, this amount is deducted. There is no interest factor, because these have been sold on the interest receiving date)	3,00,000	2,95,200	
Dec. 31	To Profit & Loss A/c (Profit on sale of debentures)		270						
Dec. 31	To Profit & Loss A/c (Transfer of interest)			11,250	Dec. 31	By Interest A/c (*Interest receivable on 1-1-1977 @ 5% p.a. on Rs. 2,00,000 for 6 months*)			5,000
					Dec. 31	By Balance c/d	2,00,000	1,96,620	
		5,00,000	4,91,820	17,500			5,00,000	4,91,820	17,500

Working Notes: Profit on Sale of Debentures :

The cost price of 5,000 debentures was Rs. 4,91,550.

Therefore, the cost price of 3,000 debentures sold will be $= \text{Rs. } \frac{4,91,550 \times 3,00,000}{5,00,000}$

$= \text{Rs. } 2,94,930$

These debentures have been sold for $= \text{Rs. } 2,95,200$

Therefore, profit on sale will be $= \text{Rs. } 270$

Balance of Debentures :

The cost price of 5,000 debentures is Rs. 4,91,550.

Therefore, the value of the balance 2,000 debentures will be $= \text{Rs. } \frac{4,91,550 \times 2,00,000}{5,00,000} = \text{Rs. } 1,96,620.$

INVESTMENT ACCOUNT
for the year ended 31st December 1976

6% Cumulative Preference Shares of Bull Ltd. *Divided Payable 30th June and 31st December*

Dr. *Cr.*

Date	*Particulars*	*Face Value*	*Cost*	*Dividend*	*Date*	*Particulars*	*Face Value*	*Cost*	*Dividend*
1976		Rs.	Rs.	Rs.	1976		Rs.	Rs.	Rs.
May 1	To Bank (Purchases) (The total payment made is Rs. 4,87,100 *i.e.*, cost of 5,000 shares @ Rs. 95 is Rs. 4,75,000 *plus* brokerage and stamp duty Rs. 12,100	5,00,000	4,77,100	10,000	Jun. 30	By Bank (Dividend on Rs. 5,00,000 @ 6% p.a. for 6 months received)			15,000
					Dec. 31	By Bank (Dividend on Rs. 7,00,000 @ 6% p.a. for 6 months received)			21,000
	Total c/fd	5,00,000	4,77,100	10,000		Total c/fd	—	—	36,000

		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1976	Total b/fd	5,00,000	4,77,100	10,000	1970	Total b/fd	—	—	36,000
	Dividend on Rs. 5,00,000 @ 6% p.a. for 4 months *i.e.*, Rs. 10,000 is included in the above said purchase price)				Dec. 31	By Balance c/d	7,00,000	6,58,400	
Oct. 1	To Bank (Purchases) (The total payment made is Rs. 1,84,300 *i.e.*, cost of Rs. 2,000 shares @ Rs 90 is Rs 1,80,000 *plus* brokerage and stamp duty Rs 4,300. Dividend on Rs. 2,00,000 @ 6% p.a. for 3 months, *i.e.*, Rs. 3,000 is included in the purchase price)	2,00,000	1,81,300	3,000					
Dec. 31	To Profit & Loss A/c (Transfer of interest)			23,000					
		7,00,000	6,58,400	36,000			7,00,000	6,58,400	36,000

Problem 6. Investment Bank L . bought Rs. 10,000 3% Government Stock at Rs. 40 *ex-interest* on 1st January 1975 and paid a cheque for Rs. 4,100, including Rs. 100 for brokerage. The interest is received on 31st March, 30th June, 30th September and 31st December.

The entire stock is sold on 31st May 1977 at Rs. 43 *cum-interest*, and a sum of Rs. 4,190 was received after deducting brokerage.

The financial year of the firm ends on 31st December.

You are required to prepare the Investment Accounts for the two years.

(I.I.B. Part I, November 1977)

Solution: Ledger Account in the Books of Investment Bank Ltd.

INVESTMENT ACCOUNT

3% Government Stock

Interest Payable on :
31st March, 30th June,
30th September, and 31st December

Dr. *Cr.*

Date	*Particulars*	*Face Value*	*Cost*	*Interest*	*Date*	*Particulars*	*Face Value*	*Cost*	*Interest*
1975		Rs.	Rs.	Rs.	1975		Rs.	Rs.	Rs.
Jan. 1	To Bank (Purchases) (Stock for Rs. 10,000 purchased @ Rs. 40 and paid Rs. 100 for brokerage. There is no interest factor, because it has already been paid to the seller on 31-12-1974)	10,000	4,100		May. 31	By Bank (Interest received for 1st quarter)			75
					June 30	By Bank (Interest received for IInd quarter)			75
					Sept. 30	By Bank (Interest received for IIIrd quarter)			75
	Total c/fd	10,000	4,100	—		Total c/fd	—	—	225

Date	Particulars	Rs.	Rs.	Rs.	Date	Particulars	Rs.	Rs.	Rs.
1975					1975				
	Total b/fd	10,000	4,100	—		Total b/fd	—	—	225
Dec. 31	To Profit & Loss A/c (Transfer of Interest)			300	Dec. 31	By Bank (Interest received for the last quarter)			75
					Dec. 31	By Balance c/d	10,000	4,100	—
		10,000	4,100	300			10,000	4,100	300
1976					1976				
Jan. 1	To Balance b/fd	10,000	4,100	—	Mar. 31	By Bank (Interest received for the Ist quarter)			75
Dec 31	To Profit & Loss A/c (Transfer of Interest)			300	June 30	By Bank (Interest received for the IInd quarter)			75
					Sept. 30	By Bank (Interest received for the IIIrd quarter)			75
					Dec. 31	By Bank (Interest received for the final quarter)			75
					Dec. 31	By Balance c/d	10,000	4,100	—
		10,000	4,100	300			10,000	4,100	300

		Rs.	[R]s.	Rs.			Rs.	Rs.	Rs.
[19]77					1977				
[Ja]n. 1	To Balance b/d	10,000	4,100		Mar. 31	By Bank (Interest received for the Ist quarter)			75
[D]ec. 31	To Profit & Loss A/c (Transfer of Interest)			125	May 31	By Bank (Sale proceeds) [Interest @ 3 % p.a. on Rs. 10,000 for 2 months, *i.e.*, Rs. 50 is *included* in the total sale proceeds of Rs. 4,300 calculated at Rs. 43 *cum-interest*. Brokerage is Rs. 60 as the net proceeds are Rs. 4,190 (Rs. 4,300 – Rs. 50 – Rs. 60)	10,000	4,190	50
[D]ec. 31	To Profit & Loss A/c (Profit on sale of investments)		90						
		10,000	4,190	125			10,000	4,190	125

Problem 7. 6% Rs. 30,000 Debentures of X Ltd. were purchased at Rs. 29,000 in 1974 and was carried down as balance on 1st January 1975. Interest is payable yearly on 31st December. On 1st April 1975, Rs. 5,000 such Debentures were purchased @ 98 *plus* ½% brokerage. On 30th September 1975 Rs. 4,000 Debentures were sold @ 99 cum-interest *less* ½% brokerage.

On 1st December 1975 Rs. 6,000 6% Debentures of X Ltd. were purchased at 95 ex-interest, and on 15th December 1975, Rs. 4,000 such Debentures were sold for 96 ex-interest, the prices being net after adjustment of brokerage. Prepare Investment Account of 6% Debentures of X Ltd.

(I.I.B. Part I, November 1979)

Solution :

INVESTMENT ACCOUNT
for the year ended 31st December, 1975

6% Debentures of X Ltd.

Interest Payable on : 31st December

Dr. Date	Particulars	Face Value	Cost	Interest	Date	Particulars	Face Value	Cost	*Cr.* Interest
1975		Rs.	Rs.	Rs.	1975		Rs.	Rs.	Rs.
Jan. 1	To Balance b/d	30,000	29,000		Sept. 30	By Bank (Sale) (Sale proceeds @ Rs. 99 amount to Rs. 3,960 *Less* brokerage Rs. 20, *i.e.* ½% of Rs. 4,000) [Interest @ 6% p.a. for 9 months, *i.e.*, Rs. 180 is included in the total sale proceeds of Rs. 3,940 calculated at Rs. 99 cum-interest *less* brokerage]	4,000	3,760	180
Apr. 1	To Bank (Purchases) (Cost Rs. 4,900 *plus* brokerage Rs. 25 *i.e.*, ½% of Rs. 5,000) [Interest @ 6% p.a. for 3 months on Rs. 5,000, *i.e.*, Rs. 75 is included in the purchase price of Rs. 4,925 calculated at Rs. 98 cum interest *plus* brokerage]	5,000	4,850	75					
Dec. 1	To Bank (Purchases) (Cost Rs. 5,700) [Interest @ 6% p.a. for remaining 1 month on Rs. 6,000 *i.e.*, Rs. 30 is excluded from the purchase	6,000	5,730	30	Dec. 1	By Bank (Sale) (Sale Proceeds @ Rs. 96 amount to Rs. 3,840) [Interest @ 6% p.a. for the remaining 15 days *i.e.*, Rs. 10 is excluded from the	4,000	3,850	10
	Total c/fd	41,000	39,580	105		Total c/fd	8,000	7,610	190

1975	Total b/fd price of Rs. 5,700 calculated at Rs. 95 ex-interest (Net)]	41,000	39,580	105		Tntal b/fd total sale proceeds of Rs. 3,840 calculated at Rs. 96 (Net) ex-interest]	8,000	7,610	190
					Dec. 31	By Profit & Loss A/c (Loss on sale)		123	
Dec. 31	To Profit & Loss A/c (Transfer of interest)			85	Dec. 31	By Balance c/d	33,000	31,847	
		41,000	39,580	190			41,000	39,580	190

Working Notes :

(i) Loss on Sale of Debentures :

It is assumed that the Debentures sold are from the lot of the Debentures held on 1st January. Therefore, the cost of the Debentures of the face value of Rs. 8,000 (Rs. 4,000+4,000) is Rs. 7,233

$$\left(\frac{29,000\times 8,000}{30,000}\right)$$

There Debentures were sold for Rs. 7,610 (Rs. 3,760+3,850) as shown in the Investment Account.

Hence, there is a loss of Rs. 123 (Rs. 7,733—7,610).

(ii) Balance of Debentures:

(a) Debentures of the face value of Rs. 22,000 out of the opening balance at a cost of Rs. 21,267 (Rs. 29,000—7,733).

(b) Debentures of the face value of Rs. 5,000 purchased on 1st April, at a cost of Rs. 4,850, and

(c) Debentures of the face value of Rs. 6,000 purchased on 1st December, at a cost of Rs. 5,730.

Thus the face value of Debentures is Rs. 33,000 (Rs. 22,000+5,000+6,000) and the cost of Debentures is Rs. 31,847 (Rs. 21,267+4,850+5,730).

8

(Simple Partnership Accounts—Fixed and Fluctuating Capitals—Current and Drawings Accounts—Interest on Capital and Drawings and Salary and Commission—Revaluation of Assets—Treatment of Goodwill—Admission—Retirement—Death of a Partner—Dissolution excluding Garner vs. Murrey and Sale to a Limited Company—Amalgamation of Firms—Final Acuounts—Reserve and Provisions—Sinking and Reserve Funds.)

A

SIMPLE PARTNERSHIP ACCOUNTS

Problem 1. Write a short note on Partnership.

(*I.I.B. Part I, November 1970*)

Or

Define Partnership ? What are its main features ?

Solution. According to the *Indian Partnership Act*, 1932 "Partnership is a relation between persons who have agreed to share the profits (including negative profits, *i.e.*, losses) of a business carried on by all or any one of them acting for all."

Such persons are individually known as 'Partners' and the name of the business is called the 'Firm'.

The important features of a partnership are the following :

1. There must be at least two persons to form a partnership. The maximum number is 10 in a banking business and 20 in any other business.

2. There must be an agreement among the partners, which may either be oral or in writing.

3. The partners must share the profits and losses of the business. Any agreement for charitable purposes cannot be a partnership.

4. There must be a lawful business.

5. The business must be carried on by all the partners or any one of them acting for all.

Problem 2. In the absence of any Partnership Deed, what are the rules relating to :

(*i*) Salaries of partners ; (*ii*) Interest on partners' loan :
(*iii*) Interest on capital : (*iv*) Interest on partners' drawings :
(*v*) Division of profits and losses.

Solution. Generally, partners agree among themselves as regards the terms and conditions on which the business of the firm will be carried on. The document in which terms and conditions as above are given, is known as 'Partnership Deed'.

In the absence of an agreement of partnership or of a provision

indicating a contrary intention, the provisions of law following would be applicable :

(*i*) **Salaries of Partners:** Partners are not entitled for any salary or other remuneration

(*ii*) **Interest on Partners' loan:** On any loan (apart from capital) advanced by a partner to the firm, he is entitled to interest on the same at 6% per annum.

(*iii*) **Interest on Partners' capital:** Partners are not entitled for interest on their capital balances.

(*iv*) **Interest on Partners' drawings:** No interest is to be charged on partners' drawings.

(*v*) ***Division of profits and losses:*** *Every partner shall* share profits and losses of the business equally.

Problem 3. What do fixed and fluctuating capital mean ?

Solution. In partnership, there will be as many capital accounts as the number of partners.

Partner's capital is the amount invested or contributed (whether in cash or in kind or in both) by the partners in the business. Whenever a partner contributes towards his capital, cash or property account is *debited* and the capital account of that partner is *credited.*

Capital accounts of the partners may be fixed or fluctuating.

In case of *fixed capital accounts,* the original capital invested by the partners remains unaltered unless additional capital is invested or the capital is withdrawn by mutual agreement. Another account called either drawings or current account will appear side by side with capital account for each partner. All the adjustments with regard to drawings, interest on capital, interest on drawings, salary to partners, profit or loss, etc., are made in the current or drawings account.

The fixed capital account and the current or drawings account appear as under :

PARTNERS' (FIXED) CAPITAL ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
Year		Rs.	Year		Rs.
M D	To Cash/Assets (Capital with-drawn)		M D	By Cash/Assets (contributed initially)	
	To Balance c/d			By Cash/Assets (additions made during the period)	
		——			——

PARTNERS' CURRENT/DRAWINGS ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
Year		Rs.	Year		Rs.
M D	To Cash/Goods (drawings)		M D	By Interest on capital	
	To Interest on drawings			By Salary	
	To Profit & loss A/c (if there is loss)			By Commission	
	To Balance c/d (for having a balance in the business)			By Profit & loss a/c (if there is profit)	
				By Balance c/d (for amounts overdrawn)	
		———			———
		═══			═══

In the case of *fluctuating capital accounts*, all transactions relating to the amount of capital contributed, drawings, interest on capital and drawings, salary or commission, share of profit or loss are passed through the capital accounts of the partners. Hence the balance of this account will fluctuate from period to period.

PARTNERS' (FLUCTUATING) CAPITAL ACCOUNT

Year		Rs.	Year		Rs.
M D	To Cash/Goods (drawings)		M D	By Cash/Assets (contributed)	
	To Interest on drawings			By Interest on capital	
	To Profit & loss a/c (share in net loss)			By Salary/Commission	
	To Balance c/d			By Profit & loss A/c (share in net profit)	
		———			———
		═══			═══

Problem 4. Explain the circumstances under which it becomes necessary to open a Profit and Loss Adjustment Account, and how this account is closed?

Solution. Sometimes, after the accounts for the year have been made up, certain transactions may come to light which were left out by mistake, such as interest on capital, interest on drawings, partners' salary/commission, interest on partners' loan etc. Therefore, to arrive at the true and fair profit or loss before its division, the above mentioned adjustments are carried out in Profit and Loss Adjustment Account in the following manner :

PROFIT AND LOSS ADJUSTMENT ACCOUNT
for the year ended......

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Profit & loss A/c* (for net loss b/d)		By Profit and loss a/c* (for net profit b/d)	
To Interest on capital of the partners		By Interest on drawings of the partners	
To Partners' salary/commission		By Balance transferred to partner's capital/current A/c* (if there is loss)	
To Interest on partners' loan			
To Balance transferred to partners' capital/current A/c* (if there is profit)			
	——		——
	===		===

**There can be either profit or loss and not the both.*

Problem 5. A and B commenced business in partnership on 1st January, 1975 No partnership agreement was made either oral or written. They contributed Rs. 40,000 and Rs. 10,000 respectively as capital. In addition A also advanced Rs. 20,000 on 1st July 1975. A met with an accident on 1st April 1975 and could not attend to the partnership business upto 30th June, 1975. The profits for the year ended on 31st December, 1975 amounted to Rs :0,600.

Disputes have arisen between them for sharing the profits.

A Claims :

(1) He should be given interest at 10% p.a. on capital and loan.

(2) Profits should be distributed in proportion of capital.

B Claims:

(1) Net profits should be shared equally.

(2) He should be allowed remuneration of Rs. 1,000 p.m. during the period of A's illness.

(3) Interest on capital and loan should be given only at 6% p.a,

You are required to settle the dispute between them and distribut the profits, according to law. State reasons for your answer.

(I I.B. Part I, October 1976

Solution:

In order to avoid disputes and legal proceedings in the course (business and to run the firm smoothly and effectively, the partnei enter into an agreement written and signed by all of them. Althoug this agreement may be verbal as well as implied by the acts of tl partners.

In the absence of an agreement, the following rules are applicab by law:

(1) A partner is not allowed any salary or remuneration
(2) Every partner will share profits and losses equally
(3) No partner is allowed any interest on capital
(4) No interest is to be charged on drawings.
(5) Interest @ 6% p.a. is allowed on loans advanced by partners.

Under these circumstances, both the claims of A will be rejected.

B's claim No. (1) is in accordance with law and will be accepted.

B's claim No. (2) will be rejected.

B's claim No. (3) will be accepted with regard to the payment interest on loan to A @ 6% p.a. Interest on capital will not given.

Distribution on Profit:

PROFIT & LOSS ADJUSTMENT ACCOUNT

Dr. for the year ended 31st December 1975 *(*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amou*
	Rs.	Rs.		Rs.	Rs.
To interest on A's loan @ 6% p.a. for a period of 6 months from 1-7-1975 to 31-12-1975 on Rs. 20,000		600	By Balance b/d		50,6
To Balance c/d to partner's capitals:					
A (½ share)	25,000				
B (½ share)	25,000	50,000			
		50,600			50,60

Problem 6. A, B and C are trading in partnership sharing profits and goodwill in the proportion of 5 : 4 : 3. There is no goodwill account in the books of the firm.

As and from January 1st 1975 it was agreed that A should give only part time to the business and that in consequence he should receive in future only one half of his previous share, the remaining half being divided equally between B and C. At the same time B and C were to acquire equally between them one half of A's share of goodwill. The goodwill is to be valued for these purposes at Rs. 96,000.

Show the new shares of the partners and pass journal entry for the purchases of goodwill.

(I I B. Part I, May 1975)

Solution:

Calculations for new profit sharing ratios

	A		*B*		*C*
Old Shares	5/12		4/12		3/12
A is to get 1/2 of his previous share, *i.e.*, 1/2 of 5/12	5/24				
B will get 1/2 of 5/24 more, *i.e.* 4/12+5/48			21/48		
C will also get 1/2 of 5/24 more, *i.e.*, 3/12+5/48					17/48
New profit sharing ratio will be	10	:	21	:	17

Calculation of Goodwill

Goodwill of the firm is Rs. 96,000.

A is sacrificing 1/2 of his previous share, *i.e.*, 5/24, therefore he will get Rs. 20,000 $\left(\frac{\text{Rs. } 96{,}000 \times 5}{24}\right)$.

B and C, each is gaining 5/48, therefore each will pay Rs. 10,000 $\left(\frac{\text{Rs. } 96{,}000 \times 5}{48}\right)$.

JOURNAL ENTRY

Date	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
1975					
Jan. 1	B's capital A/c	Dr.		10,000	
	C's capital A/c	Dr.		10,000	
	To A's capital A/c				20,000
	(Being one-half share of A's goodwill acquired by B and C equally)				

Problem 7. On 31st December 1966, three partners had the following amounts at the credit of their capital accounts: A Rs. 5,000; B Rs. 3,000; and C Rs. 2,000.

On 1st January 1967, they had to the credit of their Drawings accounts: A Rs. 750: B Rs. 500 and C Rs. 400.

Profits are divided in the same proportions as the capital upto Rs. 2,000. Above that amount A gets 25 per cent; B 35 per cent; and C 40 per cent.

A drew during the year 1967 Rs. 500; B drew Rs. 400 and C drew Rs. 300.

The profits for 1967 amounted to Rs. 3,000.

Give the Drawing account of each partner on 31st December 1967.

(I.I.B. Part I, October 1968)

Solution:

WORKING FOR DISTRIBUTION OF PROFITS AMONGST THE PARTNERS

Amount limits		Amounts Payable to A	B	C
Upto	Rs. 2,000	Rs. 1,000 (50%)	Rs. 600 (30%)	Rs. 400 (20%)
Balance	Rs. 1,000	Rs. 250 (25%)	Rs. 350 (35%)	Rs. 400 (40%)
Total	Rs. 3,000	Rs. 1,150	Rs. 950	Rs. 800

PARTNERS' CAPITAL ACCOUNTS

Dr. | Cr.

Date	Particulars	A	B	C	Date	Particulars	A	B	C
		Rs.	Rs.	Rs.	1967		Rs.	Rs.	Rs.
1967 Dec. 31	To Balance c/d	5,000	3,000	2,000	Jan 1	By Balance b/d	5,000	3,000	2,000
		5,000	3,000	2,000			5,000	3,000	2,000

PARTNERS' DRAWINGS ACCOUNTS

Date	Particulars	A	B	C	Date	Particulars	A	B	C
1967		Rs.	Rs.	Rs.	1967		Rs.	Rs.	Rs.
	To Cash (Withdrawls)	500	400	300	Jan. 1	By Balance b/d	750	500	400
Dec. 31	To Balance c/d	1,500	1,050	900	Dec. 31	By Profit & loss a/c (Shares in profits)	1,250	950	800
		2,000	1,450	1,200			2,000	1,450	1,200

Problem 8. X, Y and Z are in partnership, sharing profits and losses equally. Their capitals are X Rs. 6,000; Y Rs. 4,000 and Z Rs. 3,000. The capital is entitled to interest at 5% p.a.

The profit for the year ended 31st December 1967 was Rs. 10,000 before taking into consideratian the following :

(*a*) The year's interest on the fixed capital due to the partners.

(*b*) Goods of the cost price of Rs. 500 taken by X for his personal use.

(*c*) An amount of Rs. 500 included in the wages account representing wages paid in respect of time spent in repairing the firm's own machinery.

Pass journal entries to record the above and show the division of Profit.

(*I.I.B. Part I, October 1968*)

Solution:

Division of Profit:

PROFIT & LOSS ADJUSTMENT ACCOUNT
for the year ended 31st December 1967

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs. P.		Rs. P.
To Interest on capitals @ 5% p.a. : X Rs. 300, Y Rs. 200, Z Rs. 150	650·00	By Balance b/d	10,000·00
To Repairs to machinery A/c	500·00	By X (Drawings) (Goods taken for personal use)	500 00
To Balance c/d to capital A/cs': X Rs. 3,283·33, Y Rs. 3,283·33, Z Rs. 3,283·34	9,850·00	By Wages (amount wrongly debited)	500·00
	11,000·00		11,000·00

JOURNAL ENTRIES

Date	Particulars		L.F.	Debit Amount	Credit Amount
1977				Rs. P.	Rs. P.
Dec. 31	Interest on capitals a/c	Dr.		650 00	
	To X's current a/c				300·00
	To Y's current a/c				200 00
	To Z's current a/c				150 00
	(Being interest on capitals @ 5% p.a. allowed to the partners)				
Dec. 31	Profit & loss adjustment a/c	Dr.		650·00	
	To Interest on capitals a/c				650·00
	(Being the expense of the firm transferred to Profit and Loss adjustment account)				
Dec. 31	X's current a/c	Dr.		500·00	
	To Profit & loss adjustment a/c				500 00
	(Being goods at cost price taken by X for his personal use)				
Dec. 31	Repairs to machinery a/c	Dr.		500 00	
	To Wages a/c				500 00
	(Being expenditure for repairs to machinery wrongly debited to wages account, rectified)				
Dec. 31	Profit & loss adjustment a/c	Dr.		500·00	
	To Repairs to machinery a/c				500·00
	(Being the expense of the firm transferred to Profit and loss adjustment a/c				
Dec 31	Wages a/c	Dr.		500 00	
	To Profit & loss adjustment a/c				500·00
	(Being amount wrongly debited in wages account, rectified)				
Dec. 31	Profit & loss adjustment a/c	Dr.		9,850 00	
	To X's current a/c				3,283·33
	To Y's current a/c				3,283·33
	To Z's current a/c				3,283·34
	(Being the balance of Profit and loss adjustment account transferred to partners' current accounts)				

Problem 8. X, Y and Z are in partnership, sharing profits and losses equally. Their capitals are X Rs. 6,000; Y Rs. 4,000 and Z Rs. 3,000. The capital is entitled to interest at 5% p.a.

The profit for the year ended 31st December 1967 was Rs. 10,000 before taking into consideratian the following :

(a) The year's interest on the fixed capital due to the partners.

(b) Goods of the cost price of Rs. 500 taken by X for his personal use.

(c) An amount of Rs. 500 included in the wages account representing wages paid in respect of time spent in repairing the firm's own machinery.

Pass journal entries to record the above and show the division of Profit.

(I.I.B. Part I, October 1968)

Solution:

Division of Profit:

PROFIT & LOSS ADJUSTMENT ACCOUNT
for the year ended 31st December 1967

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs. P.		Rs. P.
To Interest on capitals @ 5% p.a. : X Rs. 300, Y Rs. 200, Z Rs. 150	650·00	By Balance b/d	10,000·00
		By X (Drawings) (Goods taken for personal use)	500 00
To Repairs to machinery A/c	500·00	By Wages (amount wrongly debited)	500·00
To Balance c/d to capital A/cs': X Rs. 3,283·33, Y Rs. 3,283·33, Z Rs. 3,283·34	9,850·00		
	11,000·00		11,000·00

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit Amount	Credit Amount
1977			Rs. P.	Rs. P.
Dec 31	Interest on capitals a/c Dr.		650 00	
	To X's current a/c			300 00
	To Y's current a/c			200 00
	To Z's current a/c			150 00
	(Being interest on capitals @ 5% p.a. allowed to the partners)			
Dec. 31	Profit & loss adjustment a/c Dr.		650'00	
	To Interest on capitals a/c			650'00
	(Being the expense of the firm transferred to Profit and Loss adjustment account)			
Dec. 31	X's current a/c Dr.		500'00	
	To Profit & loss adjustment a/c			500 00
	(Being goods at cost price taken by X for his personal use)			
Dec. 31	Repairs to machinery a/c Dr.		500 00	
	To Wages a/c			500 00
	(Being expenditure for repairs to machinery wrongly debited to wages account, rectified)			
Dec. 31	Profit & loss adjustment a/c Dr.		500'00	
	To Repairs to machinery a/c			500'00
	(Being the expense of the firm transferred to Profit and loss adjustment a/c			
Dec 31	Wages a/c Dr.		500 00	
	To Profit & loss adjustment a/c			500'00
	(Being amount wrongly debited in wages account, rectified)			
Dec. 31	Profit & loss adjustment a/c Dr.		9,850 00	
	To X's current a/c			3,283'33
	To Y's current a/c			3,283'33
	To Z's current a/c			3,283'34
	(Being the balance of Profit and loss adjustment account transferred to partners' current accounts)			

PARTNERS' CAPITAL ACCOUNTS

Dr. Cr.

Date	Particulars	X	Y	Z	Date	Particulars	X	Y	Z
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1967					1967				
Dec. 31	To Balance c/d	6,000	4,000	3,000	Jan. 1	By Balance b/d	6,000	4,000	3,000
		6,000	4,000	3,000			6,000	4,000	3,000

PARTNERS' CURRENT ACCOUNTS

Date	Particulars	X	Y	Z	Date	Particulars	X	Y	Z
		Rs. P.	Rs. P.	Rs. P.			Rs. P.	Rs. P.	Rs. P.
1967					1967				
Dec. 31	To P & L Adj. a/c (Drawings)	500·00	—	—	Dec. 31	By Interest on capitals	300·00	200·00	150·00
Dec. 31	To Balance c/d	3,083·33	3,483·33	3,433·34	Dec. 31	By P & L Adj. a/c (Profit)	3,283·33	3,283·33	3,283·34
		3,583·33	3,483·33	3,433·34			3,583·33	3,483·33	3,433·34

Problem 9. A, B and C are partners sharing profits and losses in proportion to their capitals at the beginning of the year. They are entitled annually to draw Rs. 6,000 ; Rs. 5,000 and Rs. 4,000 respectively out of their anticipated shares of profits. Any drawings in excess of these amounts are to be regarded as advances taken from the firm and are to be subjected to interest at an average rate of 6% per annum. The capitals as at the beginning of the year are to be allowed interest at an average rate of 5% per annum.

The capitals of the partners as at the beginning of the year were :

A, Rs. 80,000 ; B, Rs. 60,000 ; and C, Rs. 40,000.

The credit balances of their current accounts were :

A, Rs. 2,304 ; B, Rs. 3,728 ; and C, Rs. 1,152.

Their drawings during the year were :

A, Rs. 10,000 ; B, Rs. 12,000 ; and C, Rs. 5,000.

The profits for the year were Rs. 30,096, before making any adjustments for interest as above.

Draw up the capital and current accounts of the partners.

(I.I.B. Part I, November 1966)

Solution.

Workings for Calculating Interest on Drawings :

A's drawings for the period are Rs. 10,000, while he is entitled for withdrawing only Rs. 6,000 out of the anticipated share of profits. Therefore, interest on drawings will be charged @ 6% p.a. on the excess amount of Rs. 4,000. This amounts to Rs. 240.

B's drawings for the period are Rs 12,000, while he is entitled for withdrawing only Rs. 5,000 out of the anticipated share of profits. Therefore, interest on drawings will be charged @ 6% p.a. on the excess amount of Rs. 7,000. This amounts to Rs. 420.

C's drawings for the period are Rs. 5,000, while he is entitled for withdrawing only Rs. 4,000 out of the anticipated share of profits. Therefore, interest on drawings will be charged @ 6% p.a. on the excess amount of Rs. 1,000. This amounts to Rs. 60.

Workings for calculating interest on capitals :

To A @ 5% p.a. on Rs. 80,000, *i.e.*, Rs. 4,000.

To B @ 5% p.a. on Rs. 60,000, *i.e.*, Rs. 3,000.

@ 5% p.a. on Rs. 40,000, *i.e.*, Rs. 2,000.

...ings for calculating their ... profits.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Particulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Interest on capitals :			By Balance b/d		30,095
A	4,000		By Interest on drawings :		
B	3,000		A	240	
C	2,000	9,000	B	420	
			C	60	720
To Net Profit c/d to current accounts :					
A (4/9th share)	9,696				
B (3/9th share)	7,272				
C (2/9th share)	4,848	21,816			
		30,816			30,816

PARTNERS' CAPITAL ACCOUNTS

Date	Particulars	A	B	C	Date	Particulars	A	B	C
Dr.		Amounts					Amounts		Cr.
		Rs	Rs.	Rs.			Rs.	Rs.	Rs.
19... Dec. 31	To Balance c/d	80,000	60,000	40,000	19... Jan. 1	By Balance b/d	80,000	60,000	40,000
		80,000	60,000	40,000			80,000	60,000	40,000

PARTNERS' CURRENT ACCOUNTS

Date	Particulars	A	B	C	Date	Particulars	A	B	C
19...		Rs.	Rs.	Rs.	19...		Rs.	Rs.	Rs.
Dec. 31	To Interest on drawings	240	420	60	Jan. 1	By Balance b/d	2,304	3,728	1,152
Dec. 31	To Drawings	10,000	12,000	5,000	Dec. 31	By Interest on capitals	4,000	3,000	2,000
Dec. 31	To Balance c/d	5,760	1,580	2,940	Dec. 31	By Profit & loss appropriation a/c (Profit)	9,696	7,272	4,848
		16,000	14,000	8,000			16,000	14,000	8,000

Problem 10. The capital accounts of P, Q and R stood at Rs 10,000; Rs 7 500 and Rs. 5,000 respectively after the necessary adjustments in respect of the drawings and the net profit for the year ended 31st December 1964 It was subsequently ascertained that 5% interest on capital and on the drawings of each partner had been omitted. The drawings of the partners had been P—Rs. 1,000, Q—Rs. 750 and R—Rs. 600. The interest on these amounted to Rs. 20; Rs. 15; and Rs. 7·50 respectively. The profit for the year as already adjusted amounts to Rs. 5,000. The partners share profits in proportion of 2/5th, 2/5th and 1/5th.

Give the adjusted capital accounts of the partners together with the Journal entries necessary for such adjustments.

(I.I.B. Part I, February 1966)

Solution:

Workings for calculation of opening capital:

The partners have *fluctuating capital accounts.* Therefore, to calculate interest thereon, it is necessray to know the amount of opening capitals.

Particulars	*Amounts*		
	P	*Q*	*R*
	Rs.	Rs.	Rs.
Capital as on 31-12-1964	10,000	7,500	5,000
Add: Drawings for the period	1,000	750	600
	11,000	8,250	5,600
Less : Profits	2,000	2,000	1,000
Capitals as on 1-1-1964	9,000	6,250	4,600

Workings for calculation of interest on capitals @ 5% p a.:

P Rs. $\frac{9,000 \times 5}{100}$ Rs. 450·00

Q *Rs.* $\frac{6,250 \times 5}{100}$ Rs. 312·50

R Rs. $\frac{4,600 \times 5}{100}$ Rs. 230·00

PROFIT AND LOSS ADJUSTMENT ACCOUNT

Dr. *Cr.*

Particulars		*Amount*	*Particulars*		*Amount*
		Rs P.			Rs. P.
To Interest on capitals:	Rs. P.		By Interest on drawings:	Rs. P.	
P	450·00		P	20·00	
Q	312·50		Q	15·00	
R	230·00	992·50	R	7·50	42·50
			By Balance (loss) c/f to capital accounts		
			P (2/5th)	380·00	
			Q (2/5th)	380·00	
			R (1/5th)	190·00	950·00
		992·50			992·50

ADJUSTING JOURNAL ENTRIES

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1964				Rs. P.	Rs. P.
Dec. 31	Profit & loss adjustment A/c	Dr.		992·50	
	To P's A/c				450·00
	To Q's A/c				312·50
	To R's A/c				230·00
	(Being interest on capitals @ 5% on the opening balances of capitals of the partners)				
Dec. 31	P's A/c	Dr.		20·00	
	Q's A/c	Dr.		15·00	
	R's A/c	Dr.		7·50	
	To Profit & loss adjustment A/c				42·50
	(Being interest on drawings charged from the partners)				
Dec. 31	P's A/c	Dr.		380·00	
	Q's A/c	Dr.		380·00	
	R's A/c	Dr.		190·00	
	To Profit & loss adjustment A/c				950·00
	(Being loss on account of adjustments for interest on capitals and interest on drawings transferred to partner's capital accounts)				

ADJUSTED PARTNERS' CAPITAL ACCOUNTS

Dr. | Cr.

Date	Particulars	Amounts P	Amounts Q	Amounts R	Date	Particulars	Amounts P	Amounts Q	Amounts R
		Rs. P.	Rs. P.	Rs. P.			Rs. P.	Rs. P.	Rs. P.
1964					1964				
Dec. 31	To Interest on drawings	20 00	15·00	7 50	Dec. 31	By Balance b/d	10,000·00	7,500 00	5,000 00
Dec. 31	To Profit and loss adj. A/c (loss transferred)	380·00	380·00	190 00	Dec. 31	By Interest on capitals	450·00	312·50	230 00
Dec. 31	To Balance c/d	10,050·00	7,417·50	5,032·50					
		10,450·00	7,812·50	5,230·00			10,450·00	7,812·50	5,230·00

Problem 11. Rich, Middle and Poor are in partnership trading as RMP Enterprises, sharing profits and losses in the ratio of 2 : 2 : 1 respectively. Interest is charged on partners' drawings at the rate of 5% per annum and credited on partners' capital account balances at the rate of 5% per annum.

Middle is the firm's sales manager and for his services he is credited with a salary of Rs. 24,000 per annum.

During the year ended 31st August 1977, the net profit of the firm was Rs. 1,86,000 and the partners drawings were:—

Rich	Rs. 36,000
Middle	Rs. 24,000
Poor	Rs. 24,000

In each case, the above sums are withdrawn in two equal instalments on 28th February 1977 and 31st August 1977.

On 28th February 1977, the firm agreed that Rich should withdraw Rs. 30,000 from his capital account and that Poor should subscribe a similar amount to his capital account.

The credit balances of the partners' accounts as on 1st September 1976 were as under:

	Capital Accounts	*Current Accounts*
	Rs.	Rs.
Rich	2,40,000	19,200
Middle	2,10,000	16,800
Poor	1,80,000	14,400

You are required to:

(1) Prepare Profit and loss appropriation account for the year ended on 31st August, 1977.

(2) Prepare the Partners' capital and current accounts for the year ended 31st August, 1977.

(*I.I.B. Part I, November 1977*)

Solution:

Workings for calculation of interests on capital of partners

Name of the Partners	*Period From*	*To*	*Months*	*Capital Amount*	*Interest @ 5%*	*Total Interest*
				Rs.	Rs.	Rs.
Rich	1-9-76	28-2-77	6	2,40,000	6,000	
	1-3-77	31-8-77	6	2,10,000	5,250	11,250
Middle	1-9-76	31-8-77	12	2,10,000	10,500	10,500
Poor	1-9-76	28-2-77	6	1,80,000	4,500	
	1-3-77	31-8 77	6	2,10,000	5,250	9,750

Workings for calculation of Interest on partner's drawings :

1. The second instalment of drawings is withdrawn on 31-8-1977, *i.e.*, the last day of closing the accounts. Therefore, no interest will be charged on this instalment.

2. Interest on drawings amounting to Rs. 18,000 and Rs. 12,000 @ 5% p.a. for the period 28-2-1977 to 31-8-1977, *i.e.*, for 6 months will be charged only from Rich and Poor respectively, which is as under :

Rich: Rs. $\frac{18,000 \times 5 \times 6}{100 \times 12}$ = Rs. 450

Poor: Rs. $\frac{12,000 \times 5 \times 6}{100 \times 12}$ = Rs. 300

3. Interest on drawings will not be charged from Middle, because his drawings are equal to the amount of salary credited to his account.

PROFIT AND LOSS APPROPRIATION ACCOUNT OF RMP ENTERPRISES

for the year ended 31st August, 1977

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Interest on capitals:			By Balance b/d		1,86,000
			By Interest on drawings:		
Rich	11,250		Rich	450	
Middle	10,500				
Poor	9,750	31,500	Poor	300	750
To Balance c/d to current accounts:					
Rich (2/5th)	62,100				
Middle (2/5th)	62,100				
Poor (1/5th)	31,050	1,55,250			
		1,86,750			1,86,750

Note. It is assumed that Rs. 1,86,000, the net profit of the firm, has been calculated after charging the salary payable to Middle as firm's sales manager.

PARTENRS' CAPITAL ACCOUNTS

Dr. | Cr.

Date	Particulars	Rich	Middle	Poor	Date	Particulars	Rich	Middle	Poor
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1977					1976				
Feb. 28	To Cash	30,000	—	—	Sep. 1	By Balance b/d	2,40,000	2,10,000	1,80,000
Aug. 31	To Balance c/d	2,10,000	2,10,000	2,10,000	1977				
					Feb. 28	By Cash	—	—	30,000
		2,40,000	2,10.000	2,10,000			2,40,000	2,10,000	2,10,000

PARTNERS' CURRENT ACCOUNTS

Date	Particulars	Rich	Middle	Poor	Date	Particulars	Rich	Middle	Poor
		Rs.	Rs.	Rs.	1976		Rs.	Rs.	Rs.
1977					Sep. 1	By Balance b/d	19,200	16,800	14,400
Feb. 28	To Cash (drawings)	18,000	12,000	12,000	1977				
Aug. 31	To Cash (drawings)	18,000	12,000	12,000	Feb. 28	By Salary (for 6 months)	—	12,000	—
Aug. 31	To Interest on drawings	450	—	300	Aug. 31	By Salary (for 6 months)	—	12,000	—
Aug. 31	To Balance c/d	56,100	89,400	30,900	Aug. 31	By Interest on capitals	11,250	10,500	9,750
					Aug. 31	By Profit & loss appropriation A/c	62,100	62,100	31,050
		92,550	1,13,400	55,200			92,550	1,13,400	55,200

Problem 12. X and Y commenced business on 1st Ja They prepared the following balance sheet as on 30th Sept i.e. for a period of 9 months :

Liabilities	Details		Amount	Assets
	Rs.	Rs.	Rs.	
Capital Accounts :	X	Y		Plant and machinery
Cash brought in	2,000	2,000		Bicycle
Add : Profit for the period	1,500	1,500		Stock on hand
	3,500	3,500		Book debts
Less : Drawings	2,500	1,500		Payments in advance
	1,000	2,000	3,000	Cash in hand
Creditors			1,500	
Loan			3,000	
Bank overdraft			5,000	
			12,500	

However, later on the following facts were disclosed :

(1) Stock on hand (Rs. 2,000) included raw material Rs. 300 which were on approval only and had not been rec the books.

(2) Book debts amounting to Rs. 500 were considerec irrecoverable and others totalling to Rs. 250 doubtful.

(3) Plant and machinery (Rs. 5,000) had been purch 1st March 1969 was taken at cost. It was agreed that depreci provided at 10% per annum.

(4) Goods costing Rs. 100 was given to Y had not been rec the books of accounts.

(5) No provision for an unexpired portion of an i premium of Rs. 400 paid for the year ended 31st March 1970 h made.

(6) Rs. 200 interest on bank overdraft to 30th Septemb had not been taken into account.

(7) Outstanding rent of Rs. 100 for the month of Septemb was not provided.

(8) Sundry creditors including Rs. 150 for goods returned the suppliers before 30th September 1969 and for which no adj have been made.

You are required to prepare :

(*a*) a summary of the adjustments to the Profit and loss account for the period, and

(*b*) a revised balance sheet as on 30th September 1969.

(*I.I.B. Part I, May 1970*)

Solution:

(*a*) PROFIT AND LOSS ADJUSTMENT ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
(1)	To Stock on hand (Raw material taken on approval, wrongly added in the stock)	300	(4)	By Y (Goods taken 'home' but not recorded)	100
			(5)	By Payments in advance : (Unexpired insurance for 6 months up to 31-3-1970)	200
(2)	To Bad debts (Book debts considered irrecoverable)	500			
(2)	To Reserve for doubtful debts (Book debts considered doubtful)	250	(8)	By Returns outwards (Goode returned to creditors not recorded)	150
(3)	To Depreciation on Plant and machinery (@ 10% p.a. on Rs. 5,000 for 7 months)	350		By Loss transferred to capital accounts : X (½ share) Rs. 625; Y (½ share) Rs. 625	1,250
(6)	To Interest on overdraft	200			
(7)	To Outstanding expenses : Rent for the month of Sept. 1969	100			
		1,700			

(b) REVISED BALANCE SHEET OF X and Y
as on 30th September, 1969

Liabilities	*Details*		*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.	Rs.		Rs.	Rs,
Capital Accounts :	X	Y		Plant and machinery	5,000	
Cash brought in	2,000	2,000		*Less* : Depreciation	350	4,650
Add : Profit for the period	1,500	1,500		Bicycle		400
	3,500	3,500		Stock on hand	2,000	
Less : Loss on account of adjustments	625	625		*Less* : On approval	300	1,700
	2,875	2,875		Book debts	4,750	
Less : Drawings	2,500	1,600		*Less* : Bad debts	500	
					4,250	
	375	1,275	1,650	*Less* : Reserve for doubtful debts	250	4,000
Creditors	1,500					
Less : Returns outwards	150		1,350	Payments in advance	100	
Loan			3,000	*Add* : Unexpired insurance for 6 months up to 31-3-1970	200	300
Bank overdraft	5,000					
Add : Interest	200		5,200			
ent outstanding (for the month of Sept. 1969)			100	Cash in hand		250
			11,300			11,300

Problem 13. A and B are partners with capitals of Rs, 4,000 and Rs. 2,000 respectively. They share profits and losses in proportion to their capitals, after charging interest on capital at 5 per cent per annum and a partnership salary of Rs. 3,000 to B. A desires to retire from full active work in the partnership from 1st January 1973. It is accordingly agreed that—

(a) B shall in future be entitled to a partnership salary of Rs. 5,000.

(b) Interest is to be allowed on capital at 5 per cent per annum.

(c) C, a departmental manager, shall be introduced as a partner, without capital, as and from 1st January 1973 with a salary of Rs 7,500 per annum, the excess of over Rs. 4,000 (his previous salary as manager) being chargeable against A and not against the firm's profits before division.

(d) C shall be also entitled to one-tenth of the profits after charging interest on capital and partnership salaries

(e) The balance of profits is to be divided as to three-fifths to A and two-fifths to B.

The profits for the year ended 31st December 1973 were Rs. 25,000 *before charging interest on capital and Partnership salaries.*

You are required to show the division between the partners, assuming that the salaries have been drawn during the year.

Drawings of partners: A Rs. 5,000, B Rs. 3,000, C Rs. 1,000.

(I.I.B. Part I, May 1974)

Solution:

PROFIT & LOSS ADJUSTMENT ACCOUNT
for the year ended 31st December, 1973

Dr. *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To B (Salary)		5,000	By Balance b/d (Profit)	25,000
To C (Salary)		7,500	By *A* (Salary in excess of Rs. 4,000 payable to C, to be charged against him)	3,500
To A (Interest on capital @5% p.a. on Rs 4000)		200		
To B (Interest on capital @ 5% p.a. on Rs. 2,000)		100		
To Balance transferred to capital accounts :	Rs.			
C (1/10th of profit)	1,570			
A (3/5th of Rs. 14,130 *i.e.* Rs. 15,700—1,570)	8,478			
B (2/5th of Rs. 14,130)	5,652	15,700		
		28,500		28,500

PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*Amounts* A	B	C	*Particulars*	*Amounts* A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To P & L Adj. a/c (Salary to C)	3,500	—	—	By Balance b/d	4,000	2,000	—
To Bank (Salary withdrawn)	—	5,000	7,500	By P & L Adj. A/c (Interest on capitals)	200	100	—
To Bank (Drawings)	5,000	3,000	1,000	By P & L Adj. A/c (Salaries)	—	5,000	7,500
To Balance c/f	4,178	4,752	570	By P & L Adj. A/c (Profit)	8,478	5,652	1,570
	12,678	12,752	9,070		12,678	12,752	9,070

Problem 14. Journalise the following transactions in the books of M/s. Shah Brothers, a partnership firm :

(*a*) Nayan and Hiten are partners in the firm sharing profits in the proportion of 2 : 1. They admit Ronak as partner with 1/4 share in the profits. He brings Rs. 24,000 as his share in the goodwill of the firm. The new profit sharing ratio is Nayan 13/24, Hiten 5/24 and Ronak 1/4. Ronak does not bring any capital.

(*b*) They purchased goods from Patel Brothers of the value of Rs. 10,000 at 10% trade discount. They paid for half the amount in cash and for the balance accepted a bill for 2 months. Patel Brothers discounted the Bill with bankers at 10% discount.

(*c*) A payment of audit fees Rs. 500 to Mr. Bam, a Chartered Accountant, was duly entered in the cash book but was posted on the credit side of Mr. Bam's account as Rs. 5,000. The mistake, if any, is to be rectified. (The difference in trial balance was taken to suspense account).

(*d*) They purchased a second-hand motor car from M/s. Metro Motors for Rs. 10,000. In consideration, they gave their old motor car (book value Rs. 3,000) and Rs. 6,000 cash.

(*e*) At the end of the year, the sundry debtors are Rs. 28,500. It was decided to write off Rs. 3,500 as bad debts. The firm maintains reserve for doubtful debts at 5% of sundry debtors and the reserve was Rs. 4,750 at the beginning of the year.

(*I.I.B. Part I, May 1976*)

Solution:

In the Books of M/s. Shah Brothers :

JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(a)	Bank A/c	Dr.		24,000	
	To Goodwill a/c				24,000
	(Being the sum brought in by Ronak, the incoming partner as his 1/4th share in the goodwill of the firm)				
	Goodwill A/c	Dr.		24,000	
	To Nayan's capital A/c				12,000
	To Hiten's capital a/c				12,000
	(Being goodwill brought in by Ronak, transferred to old partners' capital accounts in their sacrificing ratio as shown below : Sacrificing ratio= Old proportion—new proportion. Nayan's 2/3—13/24=16/24—13/24 =3/24 Hiten's 1/3—5/24 =8/24—5/24 =3/24 Thus, the old partners are sacrificing in equal proportions. Ronak's share=3/24+3/24=6/24 =1/4)				
(b)	Purchases A/c	Dr.		9,000	
	To Patel Brothers				9,000
	[Being goods of the total value of Rs. 10,000 purchased from Patel Brothers at a trade discount of 10% *i.e.* (Rs. 10,000—Rs. 1,000=Rs. 9000). Their invoice for Rs. 9,000 recorded].				
	Patel Brothers	Dr.		9,000	
	To Cash A/c				4,500
	To Bills payable A/c				4,500
	(Being half of the total amount due paid in cash and for the remaining half accepted a bill drawn by Patel Brothers for 2 months, due on ...)				

Note : No journal entry will be passed in the books of Shah Brothers for the bill got discounted by Patel Brothers from their bankers.

(c)	Audit fees a/c	Dr.	500	
	Bam's A/c	Dr.	5,000	
	To Suspense A/c			5,500
	(Being the payment of audit fees Rs. 500 was to be debited to audit fees account, but wrongly credited in the personal account of Mr. Bam as Rs. 5.000, resulting in a difference of Rs. 5,500 in the trial balance, already transferred to suspense account, now rectified)			
(d)	Motor car A/c	Dr.	10,000	
	To Metro Motors			10,000
	(Being a second-hand motor car purchased from M/s. Metro Motors)			
	Metro Motors	Dr.	10,000	
	To Old motor car A/c			4,000
	To Cash a/c			6,000
	(Being payment due to M/s. Metro Motors settled by paying Rs. 6,000 in cash and giving them our old motor car of the book value of Rs. 3,000 at Rs. 4,000)			
	Old motor car A/c	Dr.	1,000	
	To Profit on sale of old motor A/c			1,000
	(Being the old motor car of the book value of Rs. 3,000 disposed of at a price of Rs. 4,000 to M/s. Metro Motors, *i.e.*, at a profit of Rs. 1,000)			
	Profit on sale of old motor car a/c	Dr.	1,000	
	To Profit & loss a/c			1,000
	(Being profit on sale of old motor car transferred to profit and loss account)			

(e)	Bad debts A/c Dr. To Sundry debtors a/c (Being bad debts written off)		3,500	3,500
	Reserve for doubtful debts a/c Dr. To Bad debts A/c (Being bad debts adjusted from reserve for doubtful debts, *i.e.* from the existing reserve of Rs. 4,750)		3,500	3,500
	Note: The firm maintains reserve for doubtful debts @ 5%. The total debtors are amounting to Rs. 28,500—Rs. 3,500 for bad debts, *i.e.* Rs. 25,000. Therefore, the amount of reserve required is Rs. 1,250 (5% on Rs. 25,000). The Reserve was Rs. 4,750 at the beginning of the year and a sum of Rs. 3,500 has been transferred to bad debts written off during the year. Hence, the reserve as per books stand at Rs. 1,250 (Rs. 4,750—Rs. 3,500) Therefore, no further provision for reserve for bad and doubtful debts is to be made.			

Problem 15. Morari, Charan and Ram are partners in a firm sharing profits and losses in the ratio of 2 : 1 : 1. It is agreed that interest on capital will be allowed at 5% per annum and interest on Drawings will be charged at 4% per annum. (No interest will be charged or allowed on Current Accounts).

The following are the particulars of the Capital, Current and Drawings Accounts of the partners:

	Morari	Charan	Ram
	Rs.	Rs.	Rs.
Capital (1st January 1978)	75,000	40,000	30,000
Current Accounts (1st January 1978)	10,000	5,000	5,000 (Dr.)
Drawings	15,000	10,000	10,000
Interest on Drawings (1978)	500	190	350

The final accounts as prepared by Patel, the accountant of the firm, showed a net profit of Rs. 60,000 before taking into account interest on Capital and Drawings and subject to the following adjustments:

(a) Life Insurance Premium of Morari's son amounting to Rs 1,000 paid by the firm on 1st October 1978 has been charged to Miscellaneous Expenditure Account.

(*b*) Repairs to machinery amounting to Rs. 10,000 has been debited to Plant account and depreciation thereon charged at 20%.

(*c*) Travelling expenses of Rs. 3,000 of Charan for attending Kisan Sammelan paid by the firm on 30th June, 1978 has been debited to Travelling expenses account.

(*i*) You are required to prepare Profit and Loss Adjustment Account.

(*ii*) Profit and Loss Appropriation Account.

(*iii*) Current Accounts of the partners for the year 1978.

(*I.I.B. Part I, April 1979*)

Solution:

Rectifying Journal Entries in the Books of the Firm:

Sl.	*Particulars*	*Debit Amount*	*Credit Amount*
		Rs.	Rs.
(1)	Morari's Drawings A/c Dr.	1,000	
	To Profit & Loss adjustment A/c		1,000
	(Being Life Insurance Premium of Morari's son paid by the firm on 1st October 1978 already charged wrongly to Miscellaneous Expenditure account, now rectified)		
(2)	Morari's Drawings A/c Dr.	10	
	To Interest on Drawings A/c		10
	(Being interest on drawings charged @ 4% p.a. for a period of 3 months, *i.e.*, from 1-10-1978 to 31-12-1978, on Rs. 1,000)		
(3)	Interest on Drawings A/c Dr.	510	
	To Profit & Loss adjustment A/c		510
	(Being interest on Morari's drawings Rs. 500 for 1978 as given and Rs. 10 as per entry No. 2 above, transferred to the profit and loss adjustment account)		
(4)	Profit & Loss adjustment A/c Dr.	3,750	
	To Interest on Morari's capital		3,750
	(Being interest on Morari's capital amounting to Rs. 75,000 allowed @ 5% per annum)		

		Dr.	Cr.
(5)	Profit & Loss adjustment A/c Dr.	8,000	
	Depreciation on Plant & Machinery A/c Dr.	2,000	
	To Plant & Machinery A/c		10,000
	(Being repairs to machinery on......... wrongly included in the Plant and Machinery account now rectified by crediting the above said account. The actual expenses of Rs. 10,000 was to be debited to the Profit & Loss account, but only Rs. 2,000 have been charged as depreciation @ 20%. Thus, the balance of Rs. 8,000 is now debited to the Profit and Loss adjustment account)		
(6)	Charan's Drawings A/c Dr.	3,000	
	To Profit & Loss adjustment A/c		3,000
	(Being the personal expenditure of the *partner as on 30-6-1978 wrongly debi*ted to the Travelling expenses account and as such already charged from Profit and Loss account, now rectified by debiting the Partner's drawings account)		
(7)	Charan's Drawings A/c Dr.	60	
	To Interest on Drawings A/c		60
	(Being interest on drawings charged @ 4% p.a. for a period of 6 months, *i.e.* from *1-7-1978 to 31-12-1978*, on Rs. 3,000)		
(8)	Interest on Drawings A/c Dr.	250	
	To Profit & Loss adjustment A/c		250
	(Being interest on Charan's drawings Rs. 190 for 1978 as given and Rs 60 as per entry No. 7 above, transferred to the Profit & Loss adjustment a/c)		
(9)	Profit & Loss adjustment A/c Dr.	2,000	
	To Interest on Charan's Capital		2,000
	(Being interest on Charan's capital amounting to Rs. 40,000 allowed @ 5% per annum)		

(10)	Interest on Drawings A/c	Dr.	350	
	To Profit & Loss adjustment A/c			350
	(Being interest on Ram's drawings for 1978 transferred to the Profit & Loss adjustment a/c)			
(11)	Profit & Loss adjustment A/c	Dr.	1,500	
	To Interest on Ram's capital			1,500
	(Being interest on Ram's capital amounting to Rs. 30,000 allowed @ 5% per annum)			

(*i*) PROFIT AND LOSS ADJUSTMENT ACCOUNT OF M/s. MORARI CHARAN AND RAM

for the year ended 31st December, 1978

Dr *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Plant & Machinery		10,000	By Net Profit b/d		50,000
To Interest on Capitals:			By Morari's Drawings		1,000
Morari			By Charan's Drawings		3,000
(5% on Rs. 75,000)	3,750		By Depreciation on:		
Charan			Plant & Machinery		
(5% on Rs. 40,000)	2,000		(20% on Rs. 10,000)		2,000
Ram			By Interest on Drawings:		
(5% on Rs. 30,000)	1,500	7,250	Morari	510	
			Charan	250	
To Balance transferred to Profit & Loss appropriation a/c		49,860	Ram	350	1,110
		67,110			67,110

(*ii*) PROFIT AND LOSS APPROPRIATION ACCOUNT OF M/s. MORARI, CHARAN AND RAM

for the year ended 31st December 1978

To Profit c/fd to current account of the partners:			By Profit b/d from Profit & Loss adjustment A/c	49,860
Morari (1/2 share)	24,930			
Charan (1/2 share)	12,465			
Ram (1/4 share)	12,465	49,860		
		49,860		49,860

PARTNER's CURRENT ACCOUNTS

Dr. Particulars	Morari	Charan	Ram	Particulars	Morari	Charan	Ram Cr.
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance b/d	—	—	5,000	By Balance b/fd	10,000	5,000	—
To Drawings	15,000	10,000	10,000	By Profit & Loss adjustment a/c (Interest on capitals)	3,750	2,000	1,500
To Profit & Loss adjustment A/c (Drawings)	1,000	3,000	—				
To Profit & Loss adjustment a/c (Interest on drawings)	510	250	350	By Profit & Loss appropriation A/c (Share in the profits)	24,930	12,465	12,465
To Balance c/d	22,170	6,215	—	By Balance c/fd	—	—	1,385
	38,680	19,465	15,350		38,680	19,465	15,350

PARTNER's CAPITAL ACCOUNTS

Particulars	Morari	Charan	Ram	Particulars	Morari	Charan	Ram
To Balance c/d	75,000	40,000	30,000	By Balance b/d	75,000	40,000	30,000
	75,000	40,000	30,000		75,000	40,000	30,000

B

PARTNERSHIP—FINAL ACCOUNTS

Problem 1. Black and White are partners sharing profits in proportion to their capitals. At the close of their financial year on 31st December 1979, the following balances stood to the credit of the partners :

		Rs.		Rs.
Capital Accounts	Black	20,000	White	5,000
Current Accounts	Black	1,060	White	2,800

The partnership deed provides :

(a) That White shall be credited with a partnership salary of Rs. 1,000 per annum for managing the business.

(b) That White shall be entitled to 10 per cent of the net profits after charging his salary, and interest on Capital, Current accounts and Drawings.

(c) Interest at 5 per cent per annum to be allowed on Capital and Current accounts.

The partner's drawings were Black Rs. 10,000; and White Rs. 3,000, on which the following amounts for interest are to be charged : Black Rs. 330, White Rs. 80.

In addition to the entries necessary to record the above particulars the following balances were extracted from the books of the firm as on 31st December, 1979:

	Rs.
Freehold Premises	15,000
Sundry creditors	24,150
Advertising	4,339
Office salaries	2,189
Sundry debtors	16,020
Office expenses	622
Insurance	364
Delivery expenses	2,203
Stock, 31st December 1979	21,069
Provision for bad debts, 1st January 1979	600
Trading Account Cr. balance	34,628
Machinery and Plant, 1st January 1979	13,280
Machinery additions during the year	1,560
Motor lorries	900
Factory expenses paid in advance	70
Cash at Bank	2,841
Cash in hand	31
Mortgage on Freehold premises at 6% p.a.	10,000
Office Furniture	300
Patents	4,000
Mortgage interest	450

You are required to prepare a Profit & Loss Account for the year ended 31st December 1979, and a Balance Sheet as on that date.

When preparing the above accounts the following matters are to be taken into consideration regarding which no entries had been made in the books :

(*a*) Depreciation to be provided as follows :
Plant—old balance, 10 per cent per annum ;
Plant, additions, 25 per cent ;
Office furniture, 10 per cent per annum ;
Patents, 10 per cent per annum.

(*b*) Motor lorries were valued on 31st December 1979 at Rs. 800.

(*c*) The provision for Bad Debts is to be made upto 5 per cent on Sundry Debtors.

(*d*) Interest on Mortgage has been paid to 30th September 1979.

(*e*) The following amounts are to carried forward to next year : Insurance Rs. 62; Advertising Rs. 878.

(*f*) Office salaries Rs. 69 were owing at 31st December 1979.

(*I.I.B. Part I, April 1980*)

Solution:

PROFIT AND LOSS ACCOUNT OF
BLACK AND WHITE
for the year ended 31st December, 1979

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Advertising	4,339		By Gross Profit b/d from		
Less : Carried forward to next year	878	3,461	Trading A/c		34,628
To Office salaries	2,189		By Interest on Drawings ;		
Add : Owing	69	2,258	Black	330	
			White	80	410
To Office expenses		622			
To Insurance	364				
Less : Carried forward to next year	62	302			
To Delivery expenses		2,203			
To Mortgage interest	450				
Add : Outstanding for 3 months	150	600			
Total c/fd		9,446	Total c/fd		35,038

Total b/fd		9,446	Total b/fd	35,
To Depreciation on Machinery & Plant (10% on Rs. 13,280)	1,328			
(25% on Rs. 1,560)	390	1,718		
To Depreciation on Motor lorries (Rs. 900—800)		100		
To Depreciation on Office furniture (10% on Rs. 300)		30		
To Depreciation on Patents (10% on Rs. 4,000)		400		
To Provision for bad debts (5% of Rs. 16,020)	801			
Less : Provision as on 1-1-1979	600	201		
To Partnership salary to White		12,000		
Interest on capitals :				
Black (5% on Rs. 20,000)	1,000			
White (5% on Rs. 5,000)	250	1,250		
Interest on current accounts :				
Black (5% on Rs. 1,060)	53			
White (5% on Rs. 2,800)	140	193		
Net Profit transferred to Partners current A/cs :				
White (10%)	970			
Black (4/5th of 90%)	6,984			
White (1/5th of 90%)	1,746	9,700		
		35,038		35,(

PARTNER's CURRENT ACCOUNTS

Dr. *Cr.*

Particulars	*Black*	*White*	*Particulars*	*Black*	*White*
	Rs.	Rs.		Rs.	Rs.
To Drawings	10,000	3,000	By Balance b/d	1,060	2,800
To Interest on drawings	330	80	By Partnership salary	—	12,000
To Balance c/d	—	14,826	By Interest on capital	1,000	250
			By Interest on current accounts	53	140
			By 10% of profit	—	970
			By Net profit	6,984	1,746
			By Balance c/d	1,233	—
	10,330	17,906		10,330	17,906

BALANCE SHEET OF BLACK AND WHITE
as on 31st December, 1979

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Capital Accounts :			Freehold premises		15,000
Black	20,000		Sundry debtors	16,020	
White	5,000	25,000	*Less* : 5% Provision for bad debts	801	15,219
White's current A/c		14,826			
Sundry creditors		24,150	Stock		21,069
Mortgage of Freehold premises at 6% p.a.		10,000	Machinery & Plant	13,280	
			Additions	1,560	
				14,840	
Outstanding expenses :			*Less* : Depreciation	1,718	13,122
Mortgage interest for 3 months	150		Motor lorries	900	
Office salaries	69	219	*Less* : Depreciation	100	800
			Factory expenses paid in advance		[illegible]
			Cash at bank		[illegible]
			Cash in hand		[illegible]
			Office furniture	300	
			Less Depreciation	[illegible]	[illegible]
Total c/fd		74,195	Total c/fd		[illegible]

Total b/fd	74,195	Total b/fd		68,422
		Patents	4,000	
		Less : Depreciation	400	3,600
		Prepaid expenses :		
		Insurance	62	
		Advertising	878	940
		Black's current A/c		1,233
	74,195			74,195

Problem 2. A and B are partners sharing profits and losses in the proportion of three-fifths and two-fifths respectively. The under-mentioned balances were extracted from their books on 31st December 1980 :

	Rs.		Rs.
A's Capital Account	65,000	Postage and Telegrams	500
A's Drawings	4,000	Advertising	9,000
B's Capital Account	40,000	Stock as on 1st January 1980	11,500
B's Drawings	3,000	Stock as on 31st Dec. 1980	12,500
Goodwill	40,000	Cash in Hand	16,000
Sales	1,60,000	Wages	14,000
Sundry Creditors	14,500	Telephone charges	500
Returns Outward	2,500	Salaries	12,250
Bills Payable	8,900	Printing and Stationery	740
Office Furniture	5,000	Commission Paid	5,000
Purchases	85,000	Travelling Expenses	2,000
Sundry Debtors	40,500	Carriage Inward	5,800
Returns Inward	1,500	Motor Vans	20,860
Rent	3,750	Plant and Machinery	10,000

Please take into account the following adjustment :—

(*i*) Write off Rs. 250 from office furniture,
10% on Plant and Machinery,
20% on Motor Vans.

(*ii*) Create a Reserve of 5% on the Sundry Debtors for Bad debts.

(*iii*) Write off one-fifth of the Advertising Expenses.

(*iv*) Partners are entitled to interest on Capital @ 5% per annum.

(*v*) B is entitled to salary of Rs. 1,800 per annum.

Prepare—

(*a*) Trial Balance as at 31st December 1980.

(*b*) Trading and Profit and Loss account for the year ende 31st December 1980.

(*c*) Balance sheet as at that date.

(*I.I.B. Part I, May 198*

Solution:

(*a*)

TRIAL BALANCE OF A & B

as on 31st December 1980

Name of the Account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
A's Capital Account		65,000
A's Drawings Account	4,000	
B's Capital Account		40,000
B's Drawings Account	3,000	
Goodwill	40,000	
Sales		1,60,000
Sundry creditors		14,500
Returns outward		2,500
Bills payable		8,900
Office furniture	5,000	
Purchases	85,000	
Sundry debtors	40,500	
Returns inward	1,500	
Rent	3,750	
Postage & Telegrams	500	
Advertising	9,000	
Stock on 1st January 1980	11,500	
Cash in hand	16,000	
Wages	14,000	
Telephone charges	500	
Salaries	12,250	
Printing & Stationery	740	
Commission paid	5,000	
Travelling expenses	2,000	
Carriage inward	5,100	
Motor Vans	20,560	
Plant & Machinery	10,000	
	2,90,900	2,90,900

(b) TRADING AND PROFIT & LOSS ACCOUNT OF A & B
for the year ended 31st December, 1980

Particulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To opening Stock as on 1st January, 1980		11,500	By Sales	1,60,000	
To Purchases	85,000		*Less*: Returns inward	1,500	1,58,500
Less: Returns outward	2,500	82,500	By Closing stock as on 31st December 1980		12,500
To Wages		14,000			
To Carriage Inward		5,800			
To Gross profit transferred to P & L A/c		57,200			
		1,71,000			1,71,000
To Rent		3,750	By Gross profit transferred from Trading A/c		57,200
To Postage & Telegrams		500			
To Advertising	9,000				
Less: 4/5th treated as Capital expenditure	7,200	1,800			
To Telephone charges		500			
To Salaries		12,250			
To Printing & Stationery		740			
To Commission paid		5,000			
To Travelling expenses		2,000			
To Depreciation on :					
(*i*) Office Furniture	250				
(*ii*) Plant & Machinery @ 10% on Rs. 10,000	1,000				
(*iii*) Motor Vans @ 20% on Rs. 20,860	4,172	5,422			
To Reserve for Bad Debts (@ 5% on Rs. 40,500)		2,025			
Total c/fd		33,987	Total c/fd		57,200

Total b/fd		33,987	Total b/fd	57,200
To Interest on Capitals:				
A (@ 5% on 65,000)	3,250			
B (@ 5% on 40,000)	2,000	5,250		
To B (Salary)		1,800		
To Net profit transferred to partners Capital accounts:				
A (3/5th)	9,698			
B (2/5th)	6,465	16,163		
		57,200		57,200

(c) BALANCE SHEET OF A & B
as on 31st December, 1980

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
A's Capital Account	65,000		Goodwill		40,000
Add. Interest on capital	3,250		Office furniture	5,000	
Add: Profit for the year	9,698		*Less:* Depreciation	250	4,750
	77,948		Sundry Debtors	40,500	
Less: Drawings	4,000	73,948	*Less:* 5% Reserve for Bad Debts	2,025	38,475
B's Capital Account	40,000		Advertising	9,000	
Add. Interest on capital	2,000		*Less:* Written off	1,800	7,200
Add: Salary	1,800		Closing stock		12,500
Add. Profit for the year	6,465		Cash in hand		16,000
	50,265		Motor vans	20,860	
Less: Drawings	3,000	47,265	*Less:* Depreciation @ 20%	4,172	16,688
Sundry creditors		14,500	Plant & Machinery	10,000	
Bills payable		8,900	*Less:* Depreciation @ 10%	1,000	9,000
		1,44,613			1,44,613

Note: *Figures are taken to the nearest of rupee.*

Problem 3. From the following details, prepare Manufacturing, ading and Profit & Loss Appropriation Account for the year ending st March 1981, and a Balance Sheet as on 31st March 1981:

	Dr. Rs.	*Cr.* Rs.
Opening Stock:		
Raw materials	60,000	
Work-in-progress	5,000	
Finished goods	20,000	
Purchases:		
Raw materials	2,10,000	
Finished goods	10,000	
Cash	2,000	
Factory rent	12,000	
Office rent, rates & taxes	3,000	
Factory salary	18,000	
Office salary	12,000	
Debtors and creditors	78,000	56,000
Sales		3,30,000
Selling expenses	8,000	
Interest on loan paid	4,000	
Discount allowed	3,000	
Discount received		1,1
Capital:		
A		68,
B		30
Partnership salary drawn:		
A	6,000	
B	3,000	
Loan		
Wages	30,000	
Interest on partners' capital drawn:		
A	500	
B	600	
Machinery	45,000	
Furniture	5,000	
	5,35,100	

(1) Provide 10% depreciation on Machinery and Furni

(2) Loan carries 10% interest and the amount is brou from earlier year.

(3) Provide 6% interest on partners' capital.

(4) Closing Stocks:

Raw materials	50,000
Work-in progress	10,000
Finished goods	35,000

(5) Salary outstanding as on 31st March 1931:

Factory	2,000
Office	1,000

(6) A and B share profits and losses as 3 : 2 after charging salary @ Rs. 500 and Rs. 250 per month to A and B respectively.

(7) Outstanding factory rent is Rs. 1,000.

(I.I.B. Part I, April 1981)

Solution:

MANUFACTURING ACCOUNT

for the year ending 31st March, 1981

Dr. *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Raw materials used:			By Work in process closing stock	10,000
Opening stock	60,000		By cost of finished goods transferred to trading A/c	2,78,000
Add: Purchases	2,10,000			
	2,70,000			
Less: Closing stock	50,000	2,20,000		
To Work in process opening stock		5,000		
To Factory rent	12,000			
Add: Outstanding	1,000	13,000		
To Factory salary	18,000			
Add: Outstanding	2,000	20,000		
To Wages		30,000		
		2,88,000		2,88,000

C

PARTNERSHIP—ADMISSION

Problem 1. What is goodwill ? What are the various methods of valuing goodwill ?

Solution. Goodwill, in simple words, means the 'good name' or the 'reputation' of the business which attracts more customers and, therefore, results in earning more profits. Goodwill of a firm enables it to earn profits in excess of the profits earned by the other firms in the same type of business. This excess is called 'Super Profits'. Goodwill really arises only if a firm is able to earn super profits.

The value of goodwill depends mainly on the following factors :

(*a*) Earning capacity of the business,

(*b*) Results of the operations of a few previous years, and

(*c*) The future prospects of the business.

All of these three things depend upon :

(*i*) Favourable location or site,

(*ii*) Nature of business,

(*iii*) Efficiency and personal skill of management,

(*iv*) Patents and trade marks possessed,

(*v*) Licences and quotas with the business,

(*vi*) Possibility of competition,

(*vii*) Efficient advertisement, etc.

Valuation of Goodwill

Goodwill is an intangible asset, but not fictitious. It cannot be seen, but can be sold or purchased. The following methods of valuation of goodwill are generally followed :

1. **Average Profits Method.** The goodwill is valued at a number of years' purchase of the average past net profits. The number of years, the past net profits of which are deemed to represent the goodwill of the business, is usually settled by taking into consideration the nature of business. For example, if goodwill is to be valued at two years purchase of the average profits for the last five years, the value of goodwill will be calculated as under :

$$\frac{\text{Total of profits for the last five years} \times 2}{5}$$

This is the most common method.

2. **Super Profits Method.** Super profits are the excess profits or extra earning capacity of the business as compared to the normal return on the capital invested. Goodwill is calculated by multiplying the super profits by a certain number of years, representing the number of years of purchase. Super profit is ascertained by deducting the normal profit from the actual profits. Normal profit is ascertained

by multiplying the average capital employed by the rate of profit generally earned by other firms in the same type of business.

3. Capitalization Method. The total value of the business is ascertained on the basis of actual profits, as under :

$$\frac{\text{Actual profits} \times 100}{\text{Rate of general expectation}}$$

Goodwill is ascertained by deducting the value of net tangible assets (*i.e.*, total tangible assets—liabilities to outsiders) from the total value of the business.

The necessity of valuing goodwill arises when the partners decide to (*a*) change profit sharing ratios, (*b*) to admit a new partner/s, (*c*) on the retirement or death of a partner, (*d*) the business is sold or converted into a limited company, (*e*) two or more firms are amalgamated, or (*f*) when a firm is dissolved.

Problem 2. Explain the accounting treatment of goodwill on admission of a partner.

Solution. Whenever a person is admitted as a partner into a business, he is ordinarily expected to pay a premium, known as his share of goodwill, in consideration for acquiring a share in the profits of the firm. It is a way for compensating existing partners for the sacrifice made by them in their profit sharing ratio on the admission of the new partner/s.

It is treated in the books of accounts in the following ways :

I. When the incoming partner brings his share of goodwill in cash, and the old partners withdraw the same.

JOURNAL ENTRIES

(*a*) Cash A/c	Dr.	Amount brought in
To Goodwill A/c		" " "
(*b*) Goodwill A/c	Dr.	" " "
To Old partners capital A/cs.		In sacrificing ratio
(*c*) Old partner's capital A/cs.	Dr.	Amount withdrawn
To Cash A/c		" "

II. When the incoming partner brings his share of goodwill in cash, and the amount is retained in the business

JOURNAL ENTRIES

(*a*) Cash A/c	Dr.	Amount brought in
To Goodwill A/c		" " "
(*b*) Goodwill A/c	Dr.	" " "
To Old partners' capital A/cs.		In sacrificing ratio

III. When the incoming partner does not bring his share of goodwill in cash, and no goodwill account appears in the books, goodwill is raised at full value and then written off.

JOURNAL ENTRIES

(a)	Goodwill A/c To Old partners capital A/cs	Dr.	Goodwill of the firm In old ratios
(b)	All partners capital A/cs. To Goodwill A/c	Dr.	In new ratios Goodwill of the firm

IV. When the incoming partner does not bring his share of goodwill in cash, and no goodwill account appears in the books, Goodwill is raised.

JOURNAL ENTRY

(a)	Goodwill A/c To Old partners capital A/cs	Dr.	Goodwill of the firm In old ratios.

V. When the incoming partner does not bring his share of goodwill in cash, and no goodwill account appears in the books. New partner's share to be recorded without raising goodwill.

JOURNAL ENTRY

(a)	New partner's capital A/c To Old partners capitals A/cs.	Dr.	New Partner's share In sacrificing ratio

VI. When goodwill appears in the books at its full value, no journal entry is to be passed.

VII. When goodwill appears in the books, but the present value of the goodwill is more than that, goodwill account is raised for the difference in these two values.

JOURNAL ENTRY

(a)	Goodwill A/c To Old partner's capital A/cs.	Dr.	Goodwill raised In old ratios.

VIII. When goodwill appears in the books, but the present value of goodwill is less than that, the goodwill account is written off (reduced) to the extent.

JOURNAL ENTRY

(a)	Old partner's capital A/cs To Goodwill A/c	Dr.	Goodwill written off In old ratios

IX. When the incoming partner acquires his share from a particular partner, the goodwill brought by him is transferred only to his capital account.

JOURNAL ENTRY

(a) New partner's capital A/c Dr.		New Partner's share
To Sacrificing partner's capital a/c		" " "

Problem 3. Will there be any change in profit-sharing ratio when a partner is admitted ? What do you understand by profit sacrificing ratio ?

Solution. The profit of the business is usually taken to be 'one' and share of each partner in the profit is called his proportion. For example, where A and B are equal partners, their profit sharing proportions will be 1/2 and 1/2 respectively.

When the division of profit is denoted by integers and not by fractions, this is called ratio. In the above example, the ratio of profit between A and B is 1 : 1.

In fact, there is no difference between ratio and proportion from accounting point of view.

When a partner is admitted, the old partners have to give him a share in the 'one' profit that was being shared by them earlier. Hence, after admission, the old partners will not be left with 'one' profit, but they will have to share in the remaining profit that is left after deducting new partner's share. The old partners have to make sacrifice, if a new partner is to get a share in the future profits.

The following cases may arise while calculating new profit sharing ratios :

(*i*) If the new partner's share is given, it is assumed that the old partners will share the remaining profits in the old ratio. For example, where A and B are sharing profits in the ratio of 2 : 1, and they admit C into partnership giving him a fourth share in future profits, the new profit sharing ratio will be calculated as under.

The total profit = 1

C takes 1/4th share, thus the remaining profit will be 3/4th.

Now, A and B will share this 3/4th profit in the ratio of 2 : 1.

i.e., in the proportion of 2/3rd and 1/3rd.

Therefore, A's share will be 2/3rd of 3/4th *i.e.*, 3/6th and

B's share will be 1/3rd of 3/4th *i.e.*, 3/12th.

New proportion of A, B and C will be 3/6th, 3/12th and 1/4th

New Profit sharing ratio among A : B : C will be 6 : 3 : 3.

(*ii*) If the new partner purchases his share of profit from old partners in a particular ratio, new profit sharing ratio of old partners will be calculated by deducting the proportion which they have given to the new partner. For example, where A and B are sharing profits in the ratio of 2 : 1, and th[illegible] ... partnership giving him a fourth share in future profits, [illegible] ... the new profit sharing ratio [illegible]

A's share was 2/3rd, out of which he gives 1/8th to C.

Hence, A's new share will be 2/3rd—1/8th *i.e.*, 13/24th.

B's share was 1/3rd, out of which he gives 1/8th to C

Thus, B's new share will be 1/3rd—1/8th *i.e.* 5/24th.

New proportion among A, B and C is 13/24, 5/24 and 1/4.

New ratio among A : B : C is 13 : 5 : 6.

(*iii*) If the new partner purchases his share of profit from any one partner, new profit sharing ratio of the partner surrendering his share will be calculated by deducting the proportion, which he has given to the new partner. For example, where A and B are sharing profits in the ratio of 2 : 1, and they admit C into partnership giving him a fourth share in future profits, which he acquires from A, the new profit sharing ratio will be calculated as under :

A's share was 2/3rd, out of which he gives 1/4th to C

Therefore, A's new share will be 2/3rd—1/4th *i.e.*, 5/12th.

There will be no change in B's share.

New proportion of A, B and C is 5/12th, 1/3rd and 1/4th.

New ratio among A : B : C is 5 : 4 : 3

Any difference between the old profit sharing proportion and new proportion is the sacrifice made by the old partners for the sake of new partner/s.

In case (*i*) sacrificing proportions will be

A's 2/3rd—3/6th=1/6th ; and B's 1/3rd—3/12th=1/12th

Sacrificing ratio in between A and B is 2 : 1.

In case (*ii*), sacrificing proportions are given *i.e.*, 1/8th and 1/8th between A and B respectively.

Sacrificing ratio in between A and B is 1 : 1.

In case (*iii*), only A has sacrificed 1/4th proportion.

Problem 4. Why are assets and liabilities of a firm revalued on the admission of a new partner and how is the result of revaluation dealt with ?

Solution. When a new partner takes admission in a firm, he acquires the ownership rights of the assets and also makes himself responsible for the firm's liabilities. It, therefore, becomes necessary to scrutinise the Balance Sheet carefully so that the new partner should not get any benefit from any appreciation in the value of assets or reduction of liabilities, nor should he suffer because of any decrease or depreciation in the value of assets or increase of liabilities. Therefore, on the date of admission, the assets and liabilities of the firm are revalued and whatever the profit or loss arises from such revaluation, that is credited (*if profit*) or debited (*if loss*) to old partners' capital accounts in their old profit-sharing ratio. For recording this, a separate account is opened known as 'Profit & Loss Adjustment Account' or more commonly known as 'Revaluation Account'.

ACCOUNTING ENTRIES FOR REVALUATION OF ASSETS AND LIABILITIES ON ADMISSION OF A NEW PARTNER

Sl.	Particulars	Account to be debited	Account to be credited
1.	For increase in the value of asset	Asset	Revaluation
2.	For decrease in the value of asset	Revaluation	Asset
3.	For increase in the value of liability	Revaluation	Liability
4.	For decrease in the value of liability	Liability	Revaluation
5.	For distribution of profit on revaluation	Revaluation	Old Partners
6.	For distribution of loss on revaluation	Old Partners	Revaluation

After the revaluation account is prepared, the assets and liabilities are recorded in this new Balance Sheet at the revaluated figures, unless otherwise stated.

At the time of admission if there is any reserve or reserve fund account, or balance of profit and loss account, they must be transferred to old partner's capital accounts in their old profit-sharing ratios.

If the partners agree that the values of assets and liabilities are not to be altered, then the increase or decrease in the values of assets and liabilities are recorded in the 'Memorandum Revaluation Account'. The balance of this account is transferred to old partners' capital accounts in their old profit sharing ratios. Then the entries made in the 'Memorandum Revaluation Account' are reversed, and the balance is transferred to the capital accounts of all the partners (including the new partner/s) in their new profit sharing ratios. However, there will be certain changes in the capital accounts of the partners due to such 'Memorandum Revaluation Account'.

Problem 5. Mr. A commenced business with a capital of Rs 2,50,000 on 1st April 1962. During the five years ending 31st March 1967 the following profits and losses were made:

Year Ending	Particulars	Amount
		Rs.
31st March, 1963	Loss	5,000
31st March, 1964	Profit	13,000
31st March, 1965	Profit	17,000
31st March, 1966	Profit	20,000
31st March, 1967	Profit	25,000

During this period he had drawn Rs. 40,000 for his personal use.

On 1st April, 1967 he admitted B into partnership on the following terms:

B to bring for his half share in the business, capital equal to A's capital as on 31st March 1967 and to pay for one-half share of goodwill of the business, on the basis of three times the average profits of the last five years.

Prepare statement showing what amount B should invest to become a partner.

(I.I.B. Part I, November 1967)

Solution:

Calculations for the share of goodwill to be brought in by B :

Profits for the last 5 years :

(Rs. 25,000+Rs. 20,000+Rs. 17,000+Rs. 13,000—Rs. 5,000)=Rs. 70,000

Average profit for the last 5 years=Rs. $\frac{70,000}{5}$=Rs. 14,000

The goodwill of the firm is thrice the average profits for the last five years.

Hence, total goodwill is Rs. 14,000×3=Rs. 42,000.

B is to pay one-half share, *i.e.* Rs. 21,000 $\left(\text{Rs. } \frac{42,000}{2}\right)$.

Calculation for the share of capital to be brought in by B :

B is to bring capital equal to A's capital as on 31st March 1967, therefore, it is necessary to calculate A's capital as on that date.

Particulars	*Amount*
	Rs.
A's capital as on 1st April, 1962	2,50,000
Add : Total of the profits for the last 5 years	70,000
	3,20,000
Less : A's drawings during the last 5 years	40,000
	2,80,000
Add : Share of goodwill to be paid by B on 31-3-1967	21,000
A's capital as on 31-3-1967	3,01,000

Statement showing the amount to be brought in by B to become partner :

Amount for goodwill	21,000
Amount for capital	3,01,000
Total amount to be brought in by him	3,22,000

Pass Journal entries and prepare Revaluation Account and a Balance Sheet after giving effect to the above.

(*I.I.B. Part 1, October 1972*)

Solution:

REVALUATION ACCOUNT

Dr. *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Reserve for doubtful debts (Rs. 6,500—Rs. 4,000)		2,500	By Building (Rs. 45,000—Rs. 37,000)	8,000
To Furniture (Rs. 5,000—Rs. 4,500)		500		
To Outstanding claim		1,200		
To Profit on revaluation transferred to:				
A's capital ($\frac{1}{2}$ share)	Rs. 1,900			
B's capita ($\frac{1}{2}$ share)	Rs. 1,900	3,800		
		8,000		8,000

JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit amount*	*Credit amount*
				Rs.	Rs.
(a)	Revaluation A/c	Dr.		4,200	
	To Reserve for doubtful debts				2,500
	To Furniture				500
	To Claim outstanding				1,200
	(Being provision for doubtful debts increased to Rs. 6,500, Furniture valued at Rs. 4,500 and a claim by an ex-employee admitted)				
(b)	Building A/c	Dr.		8,000	
	To Revaluation A/c				8,000
	(Being the value of the building appreciated to Rs. 45,000)				

(c) Revaluation A/c	Dr.	3,800	
To A's capital A/c			1,900
To B's capital A/c			1,900
(Being the profit on revaluation of assets and liabilities divided between the partners in their equal profit sharing ratios)			
(d) Investments A/c	Dr.	4,300	
To A's capital A/c			4,300
(Being personal investments of A brought in the firm)			

BALANCE SHEET OF A & B
as on 31st December, 1971

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Creditors		40,000	Cash in hand		2,000
Salaries outstanding		14,000	Cash at Bank		10,000
Claim outstanding		1,200	Sundry Debtors	42,000	
A's Capital	50,000		*Less* : Reserves for doubtful debts	6,500	35,500
Add : Investments (brought in)	4,300		Bills Receivable		17,000
Add : Profit on revaluation (½ share)	1,900	56,200	Stock		20,000
			Investments	20,000	
B's Capital	45,000		*Add* : Brought in by A	4,300	24,300
Add : Profit on revaluation (½ share)	1,900	46,900	Furniture	5,000	
			Less : Depreciation	500	4,500
			Building	37,000	
			Add : Appreciation	8,000	45,000
		1,58,300			1,58,300

Problem 7. A and B are equal partners and on 30th June, 1970, their Balance Sheet stood as follows :

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Sundry creditors	5,000	Stock in trade	3,500
Bank overdraft	1,500	Sundry debtors	6,100
A's capital A/c	2,100	Fixtures and fittings	250
B's capital A/c	1,600	Investments	300
		Cash in hand	50
	10,200		10,200

It is arranged that C shall be taken into partnership and as a result of the negotiations, it is agreed (as between A and B only) to make the following adjustments in the above balance sheet :

(1) To write off bad debts amounting to Rs. 1,500.
(2) To write down the fixtures and fittings to Rs. 100.
(3) To depreciate the stock-in-trade by 15%.
(4) To write off loss upon Investments by 25%.
(5) To create a goodwill of Rs. 1,000.

C introduces Rs. 1,000 as his third share in the capital, to which amount it has been agreed that, that of the others shall be adjusted.

State what entries will be necessary to carry out these transactions and prepare an amended Balance Sheet of the firm immediately after C has become a partner.

(*I.I.B. Part I, May 1971*)

Workings:

(1) Calculation of Profit or Loss on Revaluation:

REVALUATION ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Bad debts (written off)	1,500	By Goodwill (raised)		1,000
To Fixtures & fittings (Rs. 250—Rs. 100)	150	By Loss on Revaluation c/d to		
To Stock in trade (15% of Rs. 3,500)	525	A's capital A/c (½ share)	625	
To Investments (Loss of 25% on Rs. 300)	75	B's capital A/c (½ share)	625	1,250
	2,250			2,250

(2) Calculation of Capitals to be brought in or taken away by old partners:

C introduces Rs. 1,000 as 1/3rd share for his share of capital to which amount the capitals of A and B are to be adjusted. Since all are equal partners, the capitals of A and B will also be Rs. 1,000 each.

CAPITAL ACCOUNTS OF OLD PARTNERS'

Dr. *Cr.*

Particulars	*Amounts* A	B	*Particulars*	*Amounts* A	B
	Rs.	Rs.		Rs.	Rs.
To Revaluation A/c (Loss)	625	625	By Balance b/d	2,100	1,600
To Bank (*Balancing figure*)	475	—	By Bank (*Balancing figure*)	—	25
To Balance c/d (Required)	1,000	1,000			
	2,100	1,625		2,100	1,625

(3) Calculation of Balance at Bank:

CASH AT BANK ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To C's capital A/c (Amount brought in by him)	1,000	By A's capital A/c (Amount taken away by him, being the excess balance in his account)	457
To B's capital A/c (Amount brought in by him to make up his balance)	25	By Balance c/d (*Balancing figure*)	55[illegible]
	1,025		1,0[illegible]

Solution:

JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(a)	Revaluation A/c	Dr.		2,250	
	To Bad debts				1,500
	To Fixtures & fittings				150
	To Stock-in-trade				525
	To Investments				75
	(Being the accounts of debtors and investments written off and provided depreciation on fixtures and fittings and on stock-in-trade)				
(b)	Goodwill A/c	Dr.		1,000	
	To Revaluation A/				1,000
	(Being the amount of goodwill raised)				
(c)	A's capital A/c	Dr.		625	
	B's capital A/c	Dr.		625	
	To Revaluation A/c				1,250
	(Being loss on revaluation shared by the old partners in equal proportions)				
(d)	Bank A/c	Dr.		1,000	
	To C's capital A/c				1,000
	(Being the amount of capital introduced by him on his admission in the firm)				
(e)	A's capital A/c	Dr.		475	
	To Bank A/c				475
	(Being amount withdrawn by A to bring down his capital equal to C's capital)				
(f)	Bank A/c	Dr.		25	
	To B's capital A/c				25
	(Being amount brought in by him to make up his capital equal to C's capital)				

BALANCE SHEET OF A, B AND C
as on 30th June, 1970

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Sundry creditors	5,000	Stock-in-trade	2,975
Bank overdraft	1,500	Sundry debtors	4,600
A's capital A/c	1,000	Fixtures & fittings	100
B's capital A/c	1,000	Investments	225
C's capital A/c	1,000	Cash in hand	50
		Cash at Bank	550
		Goodwill	1,000
	9,500		9,500

Note. The changes in the value of the assets is arrived at as follows :

Stock-in-trade :	Rs. 3,500—Rs. 525 (15% depreciation) =Rs. 2,975.
Sundry debtors :	Rs. 6,100—Rs. 1,500 (Bad-debts written off) =Rs. 4,600.
Fixtures & fittings :	Rs. 250—Rs. 150=Rs. 100 (amount to be written down to Rs. 100).
Investments :	Rs. 300—Rs. 75 (25% written off for loss on investments)=Rs. 225.
Cash in hand :	no change.
Cash at bank :	as shown in working no 3.
Goodwill :	Amount of Rs. 1,000 raised.

Problem 8. A and B are partners, sharing profit in the ratio of 2 : 1 respectively.

On 1st January 1973, they agree to admit C as a partner. C agreeing to contribute Rs. 50,000 as his capital. A, B and C agree to share profits and losses in proportions of A 2/8, B 3/8 and C 3/8.

The Balance Sheet of A and B on 31st December 1972 was as under:

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
A's capital	62,500		Cash at Bank	6,250
B's capital	37,500		Stock on hand	50,000
		1,00,000	Debtors	31,250
Sundry creditors		50,000	Plant	25,000
			Premises	37,500
		1,50,000		1,50,000

They agree to revalue the assets as under:

Stock-on-hand Rs. 45,000; Plant Rs. 18,000; Premises Rs. 50,000; a provision of 5 per cent for doubtful debts is to be maintained.

A agreeing to take Rs. 15,000 as goodwill from C for reduction in his profit sharing ratio.

Pass journal entries and prepare the balance sheet of the new firm.

(*I.I.B. Part I, May 1973*)

Workings:

1 Calculation of Profit or Loss on Revaluation:

REVALUATION ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*		*Amount*
	Rs.			Rs.
To Stock on hand (Rs. 50,000—Rs. 45,000)	5,000	By Premises (Rs. 50,000—Rs. 37,500)		12,500
To Plant (Rs. 25,000—Rs. 18,000)	7,000	By Loss on revaluation transferred to:		
To Provision for doubtful debts (5% of Rs. 31,250)	1,562	A's capital (2/3rd share)	Rs. 708	
		B's capital (1/3rd share)	354	1,062
	13,562			13,562

(2) Calculation of Partner's Capitals:

PARTNER's CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*Amounts* A	B	C	*Particulars*	*Amounts* A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Revaluation A/c	708	354	—	By Balance b/d	62,500	37,500	—
To Balance c/d	76,792	37,146	50,000	By Bank	—	—	50,000
				By Goodwill	15,000	—	—
	77,500	37,500	50,000		77,500	37,500	50,000

(3) Calculation of Balance at Bank:

CASH AT BANK ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/d	6,250	By Balance c/d	71,250
To C's capital A/c (Brought in by him)	50,000		
To Goodwill A/c (Brought in by C)	15,000		
	71,250		71,250

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit amount*	*Credit amount*
				Rs.	Rs.
(a)	Revaluation A/c	Dr.		13,562	
	To Stock on hand				5,000
	To Plant				7,000
	To Provision for doubtful debts				1,562
	(Being the amount of reduction in the value of assets)				
(b)	Premises A/c	Dr.		12,500	
	To Revaluation A/c				12,500
	(Being the amount of increase in the value of assets)				
(c)	A's capital A/c	Dr.		708	
	B's capital A/c	Dr.		354	
	To Revaluation A/c				1,062
	(Being the loss on revaluation of assets distributed to old partners in their profit sharing ratio of 2 : 1)				
(d)	Bank A/c	Dr.		65,000	
	To C's capital A/c				50,000
	To Goodwill A/c				15,000
	(Being the amount brought in by C, on his admission in the firm)				

(*e*)	Goodwill A/c	Dr.	15,000	
	To A's capital A/c			15,000
	(Being amount paid by C on account of goodwill credited to A in consideration for reduction in his profit sharing ratio)			

BALANCE SHEET OF A, B and C
as on 1st January, 1973

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
A's Capital	76,792		Cash at bank		71,250
B's Capital	37,146		Stock on hand		45,000
C's Capital	50,000	1,63,938	Debtors	31,250	
			Less : Provision		
Sundry creditors		50,000	for doubtful debts	1,562	29,688
			Plant		18,000
			Premises		50,000
		2,13,938			2,13,938

Problem 9. A, B and C are partners. They share the profits in the ratio of 5 : 3 : 2 respectively. Their capitals show credit balances of Rs. 50,000; Rs. 45,000 and Rs. 35,000 respectively.

Two new partners D and E are introduced. The profits will now be shared by A, B, C, D and E in the ratio of 3 : 4 : 2 : 2 : 4.

E is to pay Rs. 12,000 for his share of goodwill plus an extra of s. 25,000 for capital. D has not got sufficient cash to pay immediately, goodwill, though he had agreed to pay on the same basis.

Goodwill account is not to appear in the books of the firm.

You are required to:

(*i*) Pass journal entries necessary to record the above transactions.

(*ii*) Prepare capital accounts of the partners.

(*Show your workings in full*).

(*I.I.B. Part I, November 1977*)

Workings:

(1) Calculations for Goodwill:

E, on his admission, with 4/15th share in the profits, brings a sum of Rs. 12,000 towards his share of goodwill, therefore, the goodwill of the firm will be :

$$\text{Rs. } 45{,}000 \left(\text{Rs. } \frac{12{,}000 \times 15}{4}\right)$$

D has agreed to pay for goodwill on the same basis as E has paid. D is getting only 2/15th share in the profits, which is half of the share given to E, therefore, D will be required to pay a sum of Rs. 6,000 towards goodwill.

Hence, the total amount receivable on account of goodwill is Rs. 18,000 (Rs. 12,000 *from* E+Rs. 6,000 *from D).*

As Goodwill is a way for compensating existing partners for the *sacrifice* made *by* them on the admission of new partner/s, the amount of Rs. 18,000 will be distributed amongst A, B and C in their sacrificing *ratios, viz.:*

$$A = 5/10 - 3/15 = \frac{15-6}{30} = \frac{9}{30} \text{ or } \frac{3}{10}$$

$$B = 3/10 - 4/15 = \frac{9-8}{30} = \frac{1}{30}$$

$$C = 2/10 - 2/15 = \frac{6-4}{30} = \frac{2}{30} \text{ or } \frac{1}{15}$$

Sacrificing ratio among A, B and C will be $\frac{9:1:2}{30} = 9:1:2$

The total sacrifice of A, B and C is equal to the total gaining of D and E

A		B		C		D		E
3/10	+	1/30	+	1/15	=	2/15	+	4/15

$$\frac{9+1+2}{30} = \frac{2+4}{15}$$

Thus 12/30 or 6/15 $\quad$ =6/15

Hence, A will get 3/10th of the total goodwill of Rs. 45,000, *i.e.* Rs. 13,500 $\left(\text{Rs. } \frac{45,000 \times 3}{10}\right)$,

B will get 1/30th of Rs. 45,000, *i.e.* Rs. 1,500, and

C will get 1/15th of Rs. 45,000, *i.e.* Rs. 3,000.

This total amount of Rs. 18,000 (Rs. 13,500+Rs. 1,500+Rs. 3,000) is the same as payable by D and E.

Amount brought in by E, Rs. 12,000 will be shared as Rs. 9,000 to A, 1,000 to B and 2,000 to C.

Amount payable by D, Rs. 6,000 will be shared as *Rs. 4,500 to A*, Rs. 500 to B and Rs. 1,000 to C.

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit amount*	*Credit amount*
			Rs.	Rs.
(a)	Bank A/c Dr.		37,000	
	To E's capital A/c			37,000
	(Being amount brought in by E on his admission to the partnership—Rs. 25,000 towards his capital and Rs. 12,000 for his share of goodwill)			
(b)	E's capital A/c Dr.		12,000	
	To A's capital A/c			9,000
	To B's capital A/c			1,000
	To C's capital A/c			2,000
	(Being the amount of goodwill brought in by E, shared by the old partners in their sacrificing ratio of 9 : 1 : 2)			
(c)	Bank A/c Dr.		12,500	
	To D's capital A/c			12,500
	(Being amount brought in by D on his admission to the partnership towards the payment of his capital)			
	Note: E is having 4/15th share and he is paying Rs. 25,000 for his capital. D is having only 2/15th share and he has agreed to pay on the same basis as E has paid, hence, he will pay one-half of E, *i.e.* Rs. 12,500)			
(d)	D's capital A/c Dr.		6,000	
	To A's capital A/c			4,500
	To B's capital A/c			500
	To C's capital A/c			1,000
	(Being the amount payable by D on account of goodwill shared by A, B and C in their sacrificing ratios of 9 : 1 : 2)			

PARTNERS's CAPITAL ACCOUNTS

Dr. Cr.

Particulars	A	B	C	D	E	Particulars	A	B	C	D	E
	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.	Rs.
To A's capital A/c	—	—	—	4,500	9,000	By Balance b/d	50,000	45,000	35,000	—	—
To B's capital A/c	—	—	—	500	1,000	By Bank A/c	—	—	—	12,500	37,000
To C's capital A/c	—	—	—	1,000	2,000	By D's capital A/c	4,500	500	1,000	—	—
To Balance c/d	63,500	46,500	38,000	6,500	25,000	By E's capital A/c	9,000	1,000	2,000	—	—
	63,500	46,500	38,000	12,500	37,000		63,500	46,500	38,000	12,500	37,000

Note : As the goodwill account is not to appear in the books of the firm, the entries relating to goodwill have been passed through the capital accounts of the partners.

Problem 10. The following is the Balance Sheet of A and B as at 31st March, 1980. C is admitted as a partner on the date when the position of A & B was an under :

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
A—Capital	10,000	Debtors	11,000
B—Capital	8,000	Land & Buildings	8,000
Creditors	12,000	Plant & Machinery	10,000
General Reserve	16,000	Stock of goods	12,000
Workmen's compensation fund	4,000	Cash & Bank	9,000
	50,000		50,000

A and B shared profits in proportion of 3 : 2

The following terms of admission are agreed upon :

(1) Revaluation of assets :

Land & Buildings	Rs. 18,000
Stock of goods	Rs. 16,000

(2) The liability on Workmen's compensation fund is determined at Rs. 2,000.

(3) C brought in as his share of Goodwill Rs. 10,000 in cash.

(4) C was to bring further cash as would make his capital equal to 20% of the combined capital of partners A and B after the above revaluation and adjustments are carried out.

(5) The future profit sharing proportions were as under :
A—2/5th ; B—2/5th ; C—1/5th.

Prepare : (*a*) Revaluation Account.
(*b*) Partner's Capital Accounts.
(*c*) Balance Sheet of the new firm after the admission of C.

(*I.I.B. Part I, April 1980*)

Solution :

(a)

REVALUATION ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Profit on revaluation transferred to :		By Land & Buildings (Rs. 18,000—8,000)	10,000
A's capital (3/5th)	9,600	By Stock of goods (Rs. 16,000—12,000)	4,000
B's capital (2/5th)	6,400	By Workmen's compensation fund (Rs. 4,000—2,000)	2,000
	16,000		16,000

(b)

PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*A*	*B*	*C*	*Particulars*	*A*	*B*	*C*
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance c/d	39,200	20,800	12,000	By Balance b/d	10,000	8,000	—
				By General reserve	9,600	6,400	—
				By Revaluation	9,600	6,400	—
				By Goodwill	10,000	—	—
				By Cash	—	—	12,000
	39,200	20,800	12,000		39,200	20,800	12,000

BALANCE SHEET OF THE NEW FIRM

(After the admission of C)
as on 31st March, 1980

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
A—Capital	39,200	Debtors	11,000
B—Capital	20,800	Land & Building	18,000
C—Capital	12,000	Plant & Machinery	10,000
Creditors	12,000	Stock of goods	16,000
Workmen's compensation fund	2,000	Cash & Bank	31,000
	86,000		86,000

Workings:

(*i*) A and B were already sharing profits in the proportion of 3/5th and 2/5th. On admission of C their new proportions are A—2/5th, B—2/5th and C—1/5th. Thus whole of the 1/5th shares of C is sacrificed by A (3/5—2/5), as such the amount brought in cash by C as his share of Goodwill will be credited to the capital account of A only.

The journal entries for the same will be:

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1980				Rs.	Rs.
Mar. 31	Cash A/c	Dr.		10,000	
	To Goodwill A/c				10,000
	(Being C brought his share of goodwill in cash)				
	Goodwill A/c	Dr.		10,000	
	To A's Capital A/c				10,000
	(Being amount paid by C on account of goodwill credited to A in consideration for reduction in his profit sharing proportion)				

(*ii*) C was to bring cash equal to 20% of the combined capital of A and B, *i.e.* 20% of Rs. 60,000 (39,200+20,800), which comes to Rs. 12,000.

(*iii*) CALCULATION OF CASH & BANK BALANCE

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/d	9,000	By Balance c/d	31,000
To Goodwill A/c	10,000		
To C's capital A/c	12,000		
	31,000		31,000

Problem 11. Deepal and Sheetal are partners in a Firm sharing profits in the ratio of 2 : 1. Their Balance Sheet as on 31st December 1980 was as on next page:

Liabilities	Rs.	Assets		Rs.
Creditors	1,400	Bank		1,004
Investment provision	400	Bills Receivable		2,500
Workmen compensation Fund	1,200	Debtors	4,000	
		Less :		
General Reserve	2,100	Provision	500	3,500
Capital A/c:				
Deepal	6,000	Stock		3,000
Sheetal	4,900	Investments		5,000
		Goodwill		996
	16,000			16,000

On the above date, Chetal is admitted for 2/5th share in the profits of the firm.

Following revaluations were made at the time of admission:

(1) Accrued incomes not appearing in the books Rs. 100.

(2) Market value of investments is Rs. 4,500.

(3) Claim on account of workmen's compensation is estimated at Rs. 150.

(4) Provision for Doubtful Debts is required at Rs. 600.

(5) X, an old customer, whose account was written off as bad, has promissed to pay Rs. 350 in settlement of his full claim.

(6) The firm had purchased machinery on hire-purchase system for Rs. 3,000 of which only Rs. 100 are to be paid. Both machinery and unpaid liability did not appear in the balance sheet.

(7) There was a joint life policy on the lives of Deepal and Sheetal for Rs. 15,000. Surrender value of the policy on the date of admission amounted to Rs. 2,400. It was decided to record this as an asset of the new firm.

(8) Chetal is required to bring in cash Rs 10,000 as capital. Her share of Goodwill was calculated at Rs. 2,400; full value of Goodwill is to be raised in the books.

You are required to prepare—

(1) Revaluation A/c.

(2) Partners' Capital Accounts.

(3) Goodwill Working.

(4) Balance Sheet of the new Firm after the admission of Chetal.

(I.I.B. Part I, April 198-)

Solution:

(1) REVALUATION ACCOUNT

Dr. Particulars		Amount	Cr. Particulars		Amount
		Rs.			Rs.
To Difference in the market value and total value of Investments (Rs. 5,000—4,500)	Rs. 500		By Incomes accrued but not received		100
Less: Investment Provision	Rs. 400	100	By Workmen Compensation fund	Rs. 1,200	
To Provision for Doubtful debts—required	Rs. 600		*Less*: Claim	Rs. 150	1,050
Less: Provided for	Rs. 500	100	By Bad debts writted off, now receivable		350
To Profit on Revaluation transferred to capital accounts of:			By Machinery purchased on hire purchase but not recorded in the books	Rs. 3,000	
Deepal (2/3rd)	Rs. 4,400		*Less*: Hire Purchase instalment due	Rs. 100	2,900
Sheetal (1/3rd)	Rs. 2,200	6,600	By joint life Policy (Surrender value)		2,400
		6,800			6,800

(3) Goodwill Working:

Chetal is admitted for 2/5th share in the profit of the firm and her share of Goodwill is calculated at Rs. 2,400/.

Therefore, the full value of the Goodwill will be

Rs. $2,400 \times \frac{5}{2}$ Rs. 6,000.

Goodwill is already shown in the Balance Sheet at Rs. 996.

Hence, Goodwill will be raised by Rs. 5,004 (Rs. 6000—996) Journal entry for this will be:

JOURNAL ENTRY

Date	Particular	L.F	Debit Amount	Credit Amount
1980			Rs.	Rs.
Dec. 31	Goodwill A/c Dr.		5,004	
	To Deepal			3,336
	To Sheetal			1,668
	(Being goodwill raised)			

(2) PARTNER's CAPITAL ACCOUNTS

Dr. Cr.

Date	Particulars	Deepal	Sheetal	Chetal	Date	Particulars	Deepal	Sheetal	Chetal
1980		Rs.	Rs.	Rs.	1980		Rs.	Rs.	Rs.
Dec. 31	To Balance b/d	15,136	9,468	10,000	Dec. 31	By Balance b/d	6,000	4,900	—
						By General Reserve	1,400	700	—
						By Goodwill	3,336	1,668	—
						By Revaluation	4,400	2,200	—
						By Cash	—	—	10,000
		15,1 6	9,468	10,000			15,136	9,468	10,000

(4) BALANCE SHEET OF THE NEW FIRM
as on 31st December 1980

Liabilities		Amount	Assets		Amount
		Rs.			Rs.
Creditors		1,400	Bank (*Rs. 1,004 +10,000 brought in by Chetal*)		11,004
Investment Provision (Book value Rs. 5,000 *Less*: Market value Rs. 4,500)		500	Bills Receivable		2,500
			Debtors	4,000	
Claim for Workmen's compensation		150	*Less*: Provision	600	3,400
Capital Accounts:			Stock		3,000
Deepal	Rs. 15,136		Investments		5,000
Sheetal	Rs. 9,468		Goodwill		6,000
Chetal	Rs. 10,000	34,604	Incomes accrued		100
			Bad debts written off now receivable		350
Instalment for Hire Purchases of Machinery due but not paid		100	Machinery		3,000
			Joint Life Policy (surrender value)		2,400
		36,754			36,754

Problem 12. *A* and *B* were equal partners. *C* comes in for 10% profit, his profit being borne by *A* personally. *D* comes in for 20% share, and his total earnings are guaranteed at Rs. 500 per month from the Firm **including** interest on Capital and Salary. *E* comes in for another 20% share, his minimum share of profit **excluding** interest or partnership salary is guaranteed by *B* personally at Rs. 8,000 per annum.

Total profits for the year ended 31st March 1982 amounted to Rs. 28,100 without considering the following appropriations which were allowable under partnership deed in addition to share of profits etc. as stated above :—

Interest on capital : Rs. 800, Rs. 500, Rs. 1,000 and Rs. 500 for *A*, *B*, *C* and *D* respectively.

Salary : Rs. 4,800, Rs. 2,000 and Rs. 3,000 for *B*, *D* and *E* respectively.

Prepare Profit and Loss Appropriation A/c for the year ended 31st March 1982. *Give full workings.*

(*I.I.B. Part I, May 1982*)

Solution:

PROFIT & LOSS APPROPRIATION A/C
for the year ended 31st March, 1982

Particulars		*Amount*	*Particulars*	*Amount*
To Interest on Capitals :			By Profit & Loss A/c	28,100
A	Rs. 800			
B	Rs. 500			
C	Rs. 1,000			
D	Rs. 500	2,800		
To Salary:				
B	Rs. 4,800			
D	Rs. 2,000			
E	Rs. 3,000	9,800		
To Balance of Profit transferred to Capital accounts :				
A	Rs. 2,900			
B	Rs. 2,550			
C	Rs. 1,550			
D	Rs. 3,500			
E	Rs. 5,000	15,500		
		28,100		28,100

Working Notes :

1. **Calculation or New Profit Sharing Ratios :**

A and B were equal patners.
Therefore, A : B=50 : 50

C comes in for 10% profit, which is borne by A.
Hence A : B : C=40 : 50 : 10.

D comes in for 20% share, which is to be borne by the firm, *i.e.*, by A and B equally or 10% each. Therefore,

A : B : C : D=30 : 40 : 10 : 20

E comes in for another 20% share from the firm. This will also be borne by A and B equally *i.e.*, 10% each from A and B. Thus,

A : B : C : D : E=20 : 30 : 10 : 20 : 20.

2. Calculation of Partners share in the profits.

Profit before charging Interest on capitals and salary		Rs. 28,100
Less : Interest on Capital	Rs. 2,800	
Salary to Partners	Rs. 9,800	Rs. 12,600
Net Profit		Rs. 15,500

Net profit may be divided as under :

A	B	C	D	E
(2/10th)	(3/10th)	(1/10th)	(2/10th)	(2/10th)
Rs. 3100	Rs. 4650	Rs. 1550	Rs. 3100	Rs. 3100

D's earnings are guaranteed at Rs 500 per month or say Rs. 6,000 per annum from the firm including interest on capital and salary.

Guaranteed amount		Rs. 6000
Less : Interest on capital to D	Rs. 500	
Salary to D	Rs. 2.000	
Profit to D	Rs. 3,100	Rs. 5,600
Deficiency		Rs. 400

Rs. 400 will be paid by A and B equally *i.e.*, Rs. 200 each.
Profit payable to D is Rs. 3,100+Rs. 400=Rs. 3,500.

E's earnings are guaranteed at Rs. 8000 per annum by B personally.

Guaranteed amount		Rs. 8,000
Less : Intereston capital to E	—	
Salary to E	Rs. 3,000	
Profit to E	Rs. 3,100	Rs. 6,100
Deficiency		1,900

Rs. 1,900 will be paid by B.

Profit payable to E is Rs. 3,100+Rs. 1,900=Rs. 5,000.

C is to get 10% of profits *i.e.*, Rs. 1,550 only.

B's share		Rs. 4,650
Less : Payable for D's deficiency	Rs. 200	
Payable for E's deficiency	Rs. 1,900	Rs. 2,100
Profit payable to C		Rs. 2,550

A's Share	Rs. 3,100
Less : Payable for D's deficiency	Rs. 200
Profit payable to A	Rs. 2,900

D

PARTNERSHIP—RETIREMENT/DEATH

Problem 1. Explain in detail the adjustments of accounts required to be done on the retirement or death of a partner.

Solution. On retirement or death of a partner, the share of such outgoing partner in the firm is to be ascertained correctly. In case of death, the amount due is paid to the legal representative/s of the deceased partner, while in case of retirement the money is paid to the retiring partner. In order to ascertain this amount, the following adjustments will be necessary :

Valuation and Treatment of Goodwill

Goodwill is valued as per the provisions given in the Partnership Deed. The share of the outgoing partner is credited to his capital account, which is in consideration for sacrificing a share in the profits of the firm.

It is treated in the books of accounts in the following ways :

JOURNAL ENTRIES

A		When goodwill is raised at its full value :		
		Goodwill A/c	Dr.	Full value
		To All partners capital A/cs		In old ratios
B.		When goodwill is raised in the books, but is then written off :		
	(a)	Goodwill A/c	Dr.	Full value
		To All partners capital A/cs		In old ratios
	(b)	Remaining partners capital A/cs	Dr.	In new ratios
		To Goodwill A/c		Full value
C		When goodwill is raised only to the extent of outgoing partner's share and goodwill account is maintained.		
		Goodwill A/c	Dr.	Outgoing
		To Outgoing partner's capital A/c		partner's share
D		When goodwill is raised only to the extent of the share of outgoing partner and then written off		
	(a)	Goodwill A/c	Dr.	Outgoing partne share
		To Outgoing partner's capital A/c		
	(b)	Remaining Partner's capital A/cs	Dr.	In gaining ratio
		To Goodwill A/c		Outgoing partne share

E.	When outgoing partner's share of goodwill is to be given to him without maintaining goodwill account in the books	
	Remaining partner's capital A/cs Dr. To Outgoing partner's capital A/c	In gaining ratios Outgoing partner's share
F.	When goodwill appears in the books at its full value, no journal entry is to be passed	
G.	When goodwill appears in the books, but the present value of the goodwill is more than that, goodwill account is raised for the difference in these two values	
	Goodwill A/c Dr. To All partner's capital A/cs	Goodwill raised In old ratios
H.	When goodwill appears in the books, but the present value of goodwill is less than that, the goodwill account is written off (reduced) to that extent.	
	All partner's capital A/cs Dr. To Goodwill A/c	In old ratios Goodwill written off
I.	When the outgoing partner gives his share to a particular partner, the goodwill payable to him is debited only to the benefitted partner's capital account.	
	Benefitted partners capital A/c Dr. To Outgoing partner's capital A/c	In gaining ratio Outgoing partners share

Calculation of Gaining Ratio

On the death or retirement of a partner, his share in the profits will be taken by the remaining partners. Thus, they get an additional share, which is a gain. When new profit sharing ratio is not given, the remaining partners will continue to share in the old ratios, existed between them, *i e.* they gain in the old ratio. If the new ratios of the partners are given, the gaining ratio is calculated by deducting the old ratio from the new one. If the gaining ratio is given, the new ratio of the remaining partners will be calculated by adding their gaining ratio with their old ratio.

Note : For adding or subtracting ratios, theyare converted into proportions

Revaluation of Assets and Liabilities

The assets and liabilities are revalued, and a revaluation account is prepared in a similar manner as was done in case of admission of partner/s. Profit or loss on revaluation is transferred to all the partner's capital accounts in their old profit sharing ratio. Assets and liabilities are then shown in the Balance Sheet at the changed values. If the continuing partners desire to maintain the assets and liabilities at their original value, then 'Memorandum Revaluation Account' should be prepared. The first part of this account will be exactly the same as in case of Revaluation Account but in second part entries shall be reversed and the profit or loss of this part shall be divided among the continuing partners in their new profit sharing ratio.

Distribution of Reserves, Accumulated Profits, etc.

Any Reserves or undistributed profits should be transferred to the capital accounts of all the partners in their old profit sharing ratio. If the continuing partners wish to maintain the Reserves or Profits, then only the retiring partner's share may be credited to his capital account and debited to reserve or accumulated profit account.

Accrued Profit or Loss (Profit or Loss upto the date of Retirement or Death)

An outgoing partner is entitled to a share in profit (or loss) upto the date of retirement or death The actual amount of profit earned from the date of the last Balance Sheet to the actual date of retirement can be ascertained only if the books are closed and stock is taken This is inconvenient, and, therefore, profit is estimated on the basis of time or on the basis of sales. The share of the outgoing partner is calculated and is credited either by debiting continuing partners capital accounts in their gaining ratio, or the amount is debited to Profit & Loss Suspense account which is closed at the end of the year by transferring the amount to Profit & Loss account. The procedure will be reverse, in case of loss.

Settlement of the Outgoing Partner's account

The total amount due to the outgoing partner as per his capital account will have to be paid over to him either in lump sum or by instalments, as may be mutually agreed. Generally, the payment is made in instalments, and as such, the amount payable to him is transferred to a separate 'Loan Account' in case of retiring partner/s and to 'Deceased Partner's Executor's (or Dependent's) Account' in case of deceased partner/s. Such loan or executor's account may also carry certain percentage of interest.

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A.	If the total dues are paid in lump sum to the outgoing partner:		
	Outgoing partner's capital A/c	Dr.	Amount due
	To Cash/Bank A/c		Amount

B. If the payment is made in instalments.

(a) For transferring the capital account to the Loan or Executors account:

Outgoing Partner's capital A/c	Dr.	Amount due
To his/her Loan/Executors' A/c		" "

(b) For the amount of interest due at the end of the period :

Interest A/c	Dr.	Amount due
To His/Her Loan/Executor's A/c		" "

(c) For paying individual instalments :

His/Her Loan/Executor's A/c	Dr.	Amount due
To Cash/Bank A/c		" "

(d) For transferring interest account to the Profit & Loss Account :

Profit & Loss A/c	Dr.	Interest due
To Interest A/c		" "

Note. The balance in the Loan or Executors' account is shown in the Balance Sheet as a liability

C. If the remaining partners agree to take over, in their individual capacities, the liability for the amount due to the the outgoing partner:

Outgoing partner's capital A/c	Dr.	Amount due
To Remaining partner's capital A/cs		Amounts taken over

Problem 2. A, B and C were in partnership, sharing profits and losses in the proportions of 1/2, 1/3 and 1/6 respectively.

Their Balance Sheet as on 30th June 1970 was as under :

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
Bills payable		6,400	Cash on hand	150
Sundry creditors		12,500	Cash at bank	25,500
Capitals :			Bills receivable	5,400
A	40,000		Book debts	17,800
B	25,000		Stock	22,300
C	20,000	85,000	Furniture	3,500
			Plant & Machinery	9,750
Profit & loss A/c		4,500	Buildings	24,000
		1,08,400		1,08,400

A retires from the business from 1st July 1970 and his share in the firm is to be ascertained on a re-valuation of the assets as follows:

Stock Rs. 20,000; Furniture Rs. 3,000; Plant & machinery Rs 9,000; Buildings Rs. 20,000; and Rs. 850 are to be provided for doubtful debts.

The goodwill of the firm is agreed to be valued at Rs 6,000.

A is to be paid Rs. 11,050 in cash on retirement and the balance in 3 equal yearly instalments with interest at 5% per annum.

Show the necessary account required to give effect to the above, the Balance sheet of the continuing partners and the account of A till it is finally closed.

(I.I.B. Part I, May 1971)

Solution:

REVALUATION ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Stock (Rs 22,300—20,000)	2,300	By Profit & loss A/c (Balance transferred)		4,500
To Furniture (Rs. 3,500—3,000)	500	By Net loss transferred to:		
To Plant & machinery (Rs 9,750—9,000)	750	A's capital A/c (1/2 share)	1,950	
To Building (Rs. 24,000—20,000)	4,000	B's capital A/c (1/3 share)	1,300	
To Reserve for doubtful debts	850	C's capital A/c (1/6 share)	650	3,900
	8,400			8,400

GOODWILL ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To A's capital a/c (1/2 share)	3,000	By B's capital a/c (2/3 share)	4,000
To B's capital a/c (1/3 share)	2,000	By C's capital a/c (1/3 share)	2,000
To C's capital a/c (1/6 share)	1,000		
	6,000		6,000

Calculation for New Profit Sharing Raties :

Old ratio of A, B and C is 1/2, 1/3 and 1/6, *i e.* 3 : 2 : 1

A is retiring leaving his 1/2 share.

B and C will continue to share profits in the old ratio, *i.e.* 2 : 1

Their proportion is B 2/3rd and C 1/3rd.

PARTNER's CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*Amounts* A	B	C	*Particulars*	*Amounts* A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Revaluation a/c	1,950	1,300	650	By Balance b/d	40,000	25,000	20,000
To Goodwill a/c	—	4,000	2,000	By Goodwill a/c	3,000	2,000	1,000
To Bank a/c	11,050	—	—				
To 5% A's loan a/c	30,000	—	—				
To Balance c/d	—	21,700	18,350				
	43,000	27,000	21,000		43,000	27,000	21,000

BALANCE SHEET OF B & C
as on 30th June, 1970

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
'ills payable		6,400	Cash in hand		150
Sundry creditors		12,500	Cash at bank		14,450
5% A's Loan a/c		30,000	Bills receivable		5,400
Capitals :			Book debts	17,800	
B	21,700		*Less*: Reserve for doubtful debts	850	16,950
C	18,350	40,050	Stock	22,300	
			Less: Depreciation	2,300	20,000
			Furniture	3,500	
			Less: Depreciation	500	3,000
Total c/fd		88,950	Total c/fd		59,950

Total b/fd	88,950	Total b/fd		59,950
		Plant & machinery	9,750	
		Less: Depreciation	750	9,000
		Buildings	24,000	
		Less: Depreciation	4,000	20,000
	88,950			88,950

Calculation of Balance at Bank:

	Rs.
Opening balance	25,500
Less: Paid to C	11,050
Balance in hand	14,450

5% A's LOAN ACCOUNT

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1971		Rs.	1970		Rs.
June 30	To Bank A/c	11,500	July 1	By A's capital A/c	30,000
June 30	To Balance c/d	20,000	1971		
			June 30	By Interest A/c	1,500
		31,500			31,500
1972			1971		
June 30	To Bank A/c	11,000	July 1	By Balance b/d	20,000
June 30	To Balance c/d	10,000	1972		
			June 30	By Interest A/c	1,000
		21,000			21,000
1973			1972		
June 30	To Bank A/c	10,500	July 1	By Balance b/d	10,000
			1973		
			June 30	By Interest A/c	500
		10,500			10,500

Problem 3. A, B and C are equal partners. C retires on 31st March 1972. The Balance Sheet of the firm as on *31st December 1971* stood as shown on the next page:

BALANCE SHEET
as on 31st December 1971

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Creditors		12,900	Cash on hand		1,000
Contingency reserve		4,000	Cash at bank		4,000
Investments fluctuation fund		1,200	Debtors	10,000	
Partner's capital :			*Less:* Reserve for doubtful debts	800	9,200
A	30,000				
B	20,000		Stock		10,000
C	20,000	70,000	Investments (cost)		5,000
			Land & Building		40,000
			Goodwill		18,900
		88,100			88,100

In order to arrive at the balance due to C, it was mutually agreed that :

		Rs.
(*a*)	Land and building be valued at	50,000
(*b*)	Investments fluctuation fund be brought to	500
(*c*)	Debtors being all good no reserve is required	...
(*d*)	Stock be taken at	9,400
(*e*)	Goodwill be valued at one year's purchase of the average profits of the past five years	
(*f*)	C's share of profit to the date of retirement be calculated on the basis of average profit of the preceeding three years.	

The profits for the preceeding five years were as under :

	Rs.
1967	11,500
1968	14,000
1969	9,000
1970	8,000
1971	10,000

Pass journal entries.

Give partner's capital accounts and revised Balance Sheet. (*Show your working*)

(*I.I.B. Part I, October 1972*)

Workings :

(1) Calculation of Goodwill :

Goodwill is to be valued at one year's purchase of the average profits for the last five years.

Total profits for the last five years
= Rs. 11,500 + 14,000 + 9,000 + 8,000 + 10,000 = 52,500

Average profit	= Rs 10,500 $\left(\text{Rs. } \frac{52,500}{5} \right)$
Book value of the goodwill	= Rs. 18,900
Present value of the goodwill	= Rs. 10,5.0
Decrease in the value	Rs. 8,400

This amount will be debited to Revaluation account.

(2) Calculation of C's share of profit to the date of retirement :

C's share of profit to the date of retirement be calculated on the basis of average profit of the preceeding three years.

Total profits for the last 3 years = Rs. 8,000 + Rs. 9,000 + Rs. 10,000
= Rs. 27,000

Average profit = Rs. 9,000 $\left(\text{Rs. } \frac{27,000}{3} \right)$

C retired on 31st March 1972 while the accounts have been prepared upto 31st December 1971.

Therefore, average profits for 3 months = Rs. 2,250 $\left(\text{Rs. } \frac{9,000 \times 3}{12} \right)$

C being an equal partner in the firm, he is having 1/3rd share.

Thus, his share in the average profits for 3 months will be

= Rs. 750 $\left(\text{Rs. } \frac{2,250}{3} \right)$

This amount will be debited to A's and B's capitals in equal proportions, *i.e.* Rs. 375 each.

(3) Calculation of Profit or Loss on Revaluation :

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Stock (Rs. 10,000−9,400)		600	By Land & building (Rs. 50,000−Rs. 40,000)	10,000
To Goodwill (Rs. 18,900−10,500)		8,400	By Investments fluctuation fund (Rs. 1,200−Rs. 500)	700
To Profit on Revaluation transferred to :			By Reserve for doubtful debts A/c	800
A's capital A/c (1/3rd share)	833			
B's capital A/c (1/3rd share)	833			
C's capital A/c (1/3rd share)	834	2,500		
		11,500		11,500

Solution :

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Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	A's capital A/c	Dr.		375	
	B's capital A/c	Dr.		375	
	To C's capital A/c				750
	(Being the profit till the date of C's retirement adjusted from the capitals of remaining partners)				
(2)	Revaluation A/c	Dr.		9,000	
	To Stock A/c				600
	To Goodwill A/c				8,400
	(Being the depreciation in the values of assets)				
(3)	Land and building A/c	Dr.		10,000	
	Investments fluctuation fund A/c	Dr.		700	
	Reserve for doubtful debts A/c	Dr.		800	
	To Revaluation A/c				11,500
	(Being the appreciation in the value of Land and building and decrease in the values of Investment fluctuations fund and Reserve for doubtful debts recorded)				
(4)	Revaluation A/c	Dr.		2,500	
	To A's capital A/c				833
	To B's capital A/c				833
	To C's capital A/c				834
	(Being profit on revaluation transferred to partners capitals equally)				
	Note: *Amounts taken to the nearest of rupee*				
(5)	Contingency reserve A/c	Dr.		4,000	
	To A's capital A/c				1,334
	To B's capital A/c				1,333
	To C's capital A/c				1,333
	(Being the reserve distributed to the partners in equal proportions)				
	Note. *Amounts taken to the nearest of rupee*				
(6)	C's capital A/c	Dr.		22,917	
	To C's loan Ac				22,917
	(Being amount of C's capital transferred to his loan account)				

Dr. PARTNER's CAPITAL ACCOUNTS Cr.

Particulars	Amounts A	Amounts B	Amounts C	Particulars	Amounts A	Amounts B	Amounts C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To C's capital A/c	375	375	—	By Balance b/d	30,000	20,000	20,000
To C's loan A/c	—	—	22,917	By A's capital A/c	—	—	375
To Balance c/d	31,792	21,791	—	By B's capital A/c	—	—	375
				By Revaluation A/c	833	833	834
				By Contingency reserve A/c	1,334	1,333	1,333
	32,167	22,166	22,917		32,167	22,166	22,917

C's LOAN ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.	1972		Rs.
			Mar. 31	By C's capital A/c	22,917

REVISED BALANCE SHEET OF A & B

Liabilities		Amount	Assets	Amount
		Rs.		Rs.
Creditors		12,000	Cash on hand	1,000
Investments fluctuation fund (Rs. 1,200—700)		500	Cash at bank	4,000
Partner's capitals:	Rs.		Debtors	10,000
A	31,792		Stock	9,400
B	21,791	53,583	Investments (cost)	5,000
C's loan A/c		22,917	Land & building	50,000
			Goodwill	10,500
		89,900		89,900

Problem 4. C, P and S were partners sharing profits 2/5th, 3/10th and 3/10th respectively. Their Balance sheet on 31st December 1975 was as follows :

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Capitals:			Building		18,000
C	16,000		Plant		14,000
P	12,000		Motor car		4,000
S	10,000	38,000	Stock		10,000
Reserve		5,000	Debtors	7,000	
Bills payable		2,000	*Less*: Provision	1,000	6,000
Creditors		8,000			
			Cash at bank		1,000
		53,000			53,000

P retires on that date on the following terms:

(*i*) The goodwill of the firm is to be valued at Rs. 7,000.

(*ii*) Stock and Building are to be appreciated by 10%.

(*iii*) Plant and Motor car are to be depreciated by 10%.

(*iv*) Liability for the payment of gratuity to workers Rs. 2,000 is not yet recorded in the books, but the same is to be provided for.

(*v*) Provision for bad debts is no more necessary.

(*vi*) It is decided not to maintain goodwill account in the books.

(*vii*) The amount payable to P is to be paid in 3 equal annual instalments beginning from 1st January, 1976 with interest at 10% p.a.

You are required to prepare:

(1) Revaluation account
(2) Partners' capital accounts
(3) New Balance sheet of C & S, and
(4) P's loan account for 1976.

(*I.I.B. Part I, October 1976*)

Solution:

(1) REVALUATION ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Plant (Depreciation @ 10% on Rs. 14,000)	1,400	By Stock (Appreciation @ 10% on Rs. 10,000)	1,000
To Motor car (Depreciation @ 10% on Rs. 4,000)	400	By Building (Appreciation @ 10% on Rs. 18,000)	1,800
To Provision for gratuity	2,000	By Provision for bad debts	1,000
	3,800		3,800

Note. The revaluation has a compensating effect, therefore, there is no profit or loss on this account.

(2) PARTNER's CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*Amounts* C	P	S	*Particulars*	*Amounts* C	P	S
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To P's capital A/c	1,200	—	900	By Balance b/d	16,000	12,000	10,000
To P's loan A/c	—	15,600	—	By Reserve A/c	2,000	1,500	1,500
To Balance c/d	16,800	—	10,600	By C's capital A/c	—	1,200	—
				By S's capital A/c	—	900	—
	18,000	15,600	11,500		18,000	15,600	[illegible]

s4s

P's LOAN ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1975		Rs.	1975		Rs.
Dec. 31	To Balance c/d	15,600	Dec. 31	By P's capital A/c	15,600
		15,600			15,600
1976			1976		
Jan. 1	To Bank A/c (1st 1/3rd instalment)	5,200	Jan. 1	By Balance b/d	15,600
Dec. 31	To Balance c/d	11,400	Dec. 31	By Interest A/c (@ 10% on Rs. 10,400, *i e.* Rs. 15,600 *less* Rs. 5,200)	1,040
		16,640			16,640
1977			1977		
Jan. 1	To Bank A/c (IInd 1/3rd instalment of Rs. 5,200 *plus* Rs. 1,040 for interest)	6,240	Jan. 1	By Balance b/d	11,440
Dec. 31	To Balance c/d	5,720	Dec. 31	By Interest A/c (@ 10% on Rs. 5,200, *i.e.* Rs. 11,440 *less* Rs. 6,240)	520
		11,960			11,960
1978			1978		
Jan. 1	To Bank A/c (IIIrd 1/3rd instalment of Rs. 5,200 *plus* Rs. 520 for interest)	5,720	Jan. 1	By Balance b/d	5,720
		5,720			5,720

(3)

BALANCE SHEET OF C AND S
as on 31st December, 1975

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Capitals:			Building	18,000	
C	16,800		*Add*: 10%		
S	10,600	27,400	appreciation	1,800	19,800
P's loan A/c		15,600	Plant	14,000	
Bills payable		2,000	*Less*: 10%		
Creditors		8,000	depreciation	1,400	12,600
Provision for gratuity		2,000	Motor car	4,000	
			Less: 10%		
			depreciation	400	3,600
			Stock	10,000	
			Add: 10%		
			appreciation	1,000	11,000
			Debtors		7,000
			Cash at bank		1,000
		55,000			55,000

Workings:

(1) Distribution of Reserves among the Partners:

Reserves amounting to Rs 5,000 will be distributed among all the partners in their profit sharing proportions, *viz.* 2/5th, 3/10th and 3/10th to C, P and S respectively.

C's share will be = Rs. $\frac{5,000\times 2}{5}$ = Rs. 2,000

P's share will be = Rs. $\frac{5,}{10}$ = Rs. 1,500

S's share will be = Rs. $\frac{5,000\times 3}{10}$ = Rs. 1,500

The following journal entry will be passed for the purpose:

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
1975 Dec. 31	Reserve A/c	Dr.		5,000	
	To C's capital A/c				2,000
	To P's capital A/c				1,500
	To S's capital A/c				

(2) Calculation of gaining proportions of remaining Partners:

P, on his retirement, is sacrificing his 3/10th share in profits.
C was having 2/5th share out of the 7/10th share (1—3/10th).

∴ C's new share will be $\frac{2\times10}{5\times7}$=4/7th

C will gain 4/7th—2/5th=$\frac{20-14}{35}$=6/35th

S was having 3/10th share out of the 7/10th share (1—3/10th).

∴ S's new share will be $\frac{3\times10}{10\times7}$=3/7th

S will gain 3/7th—3/10th=$\frac{30-21}{70}$=$\frac{9}{70}$th

Thus, 3/10th share sacrificied by P will be shared by C and S in the proportions of 6/35th and 9/70th$\left(\frac{12+9}{70}=\frac{21}{70}=\frac{3}{10}\text{th}\right)$

(3) Calculation of Goodwill:

The goodwill of the firm is valued at Rs. 7,000.
P was having 3/10th share in profits, therefore, he will get

Rs. 2,100 $\left(\text{Rs. }\frac{7,000\times3}{10}\right)$.

This amount will be payable by C and S in their gaining ratio

C will pay Rs. 1,200 $\left(\text{Rs. }\frac{7,000\times6}{35}\right)$.

S will pay Rs. 900 $\left(\text{Rs. }\frac{7,000\times9}{70}\right)$.

As the goodwill account is not to be maintained in the books, the following journal entry will be passed for the purpose:

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1975				Rs.	Rs.
Dec. 31	C's capital A/c	Dr.		1,200	
	S's capital A/c	Dr.		900	
	To P's capital A/c				2,100

Problem 5. P, Q, R are partners in a business sharing profits 3/4, 1/8, 1/8 respectively, and their Balance Sheet as on 31st December 1981 was as follows :

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		40,000	Plant and Machinery	60,000
General Reserve		5,000	Patents	10,000
Capital A/c			*Sundry Debtors*	*35,000*
P	50,000		Stock	20,000
Q	30,000		Cash	25,000
R	25,000	1,05,000		
		1,50,000		1,50,000

R retires on 31st December 1981 on the following terms :

(1) Goodwill is to be valued at three years' purchase of the average profits of the last four years. The profits were as follows :

1978	50,000
1979	60,000
1980	*40,000*
1981	50,000

(2) Goodwill account is not to appear in the books after R's retirement.

(3) Plant and machinery was valued at Rs. 50,000, patents at Rs. 15.300 and stock at Rs. 18,000.

(4) A provision of 5% on debtors was necessary.

(5) On 30th June 1980, a shed was constructed at a cost of Rs. 10,000. This sum was charged to Profit and Loss A/c. This asset is now to be brought in the books, after allowing [illegible] (This adjust- [illegible] ation of good- [illegible]

(6) Q was to acquire the whole of the share of profit of 'R'.

(7) The total capital of the Firm was to be Rs. 80,000 and capitals of P and Q were to be in their profit sharing ratio, necessary adjustments to be made in cash.

(8) R is to leave Rs. 30,000 in the business as loan at 12%. remaining amount is to be paid to him immediately.

You are required to prepare :

(1) Revaluation A/c.

(2) Partner's Capital A/c showing all the adjustment.

(3) Balance Sheet of the Firm after *R*'s retirement.

(4) Give full working for Goodwill A/c and Cash A/c.

(I.I.B. Part I, November 1982)

Solution:

REVALUATION A/C

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Plant & Machinery (Rs. 60,000 — 50,000)		10,000	By Patents (Rs. 15,300 — 10,000)	5,300
To Stock (Rs. 20,000 — 18,000)		2,000	By Buildings (cost of shed as per working note no. 4)	9,250
To Provision on Debtors (5% on Rs. 35,000)		1,750		
To Profit on Revaluation transferred to				
P's Capital (3/4th share)	600			
Q's capital (1/8th share)	100			
R's capital (1/8th share)	100	800		
		14,550		14,550

PARTNER'S CAPITAL ACCOUNTS

Particulars	Amounts P	Amounts Q	Amounts R	Particulars	Amounts P	Amounts Q	Amounts R
To R (share is Goodwill as per *working note No. 3*)	—	37,500	—	By Balance b/d	50,000	30,000	25,000
				By Revaluation a/c (Profit)	600	100	100
To Cash (*Balancing figure*)	—	—	33,225	By General reserve (*Working note No. 1*)	3,750	625	625
To R's Loan A/c	—	—	30,000	By Q (Share in Goodwill as per *Working note No. 3*)	—	—	37,500
To Balance c/d (*Working note No. 5*)	60,000	20,000	—	By Cash (*Balancing figure*)	5,650	26,775	—
	60,000	57,500	63,225		60,000	57,500	63,225

R'S 12% LOAN A/C

Particulars	Amount	Particlars	Amount
	Rs.		Rs.
To Balance c/d	30,000	By balance transferred from R's Capital A/c	30,000
	30,000		30,000

CASH A/C

	Rs.		Rs.
To Balance b/d	25,000	By R	33,225
To P's Capital A/c	5,650	By Balance c/d	24,200
To Q's Capital A/c	26,775		
	57,425		57,425

BALANCE SHEET OF P & Q
as on 31st December 1981

Liabilities		Amount	Assets		Amount
		Rs.			Rs.
Sundry creditors		40,000	Plant & Machinery		50,000
Capital A/c's:			Patents		15,300
P	60,000		Sundry Debtors	35,000	
Q	20,000	80,000	*Less*: Provision@ 5%	1,750	33,250
12% Loan A/c		30,000	Stock		18,000
			Cash		24,200
			Buildings (cost of shed)	10,000	
			Less: Depreciation on original cost for $1\frac{1}{2}$ year @ 5%	750	9,250
		1,50,000			1,50,000

Workings :

(1) Distribution of General Reserve among the Partners :

General Reserve amounting to Rs. 5,000 will be distributed among

all the partners in their profit sharing proportions, *viz.*, 3/4th, 1/8th and 1/8th to P, Q and R respectively.

P's share will be = Rs. $\frac{5,000 \times 3}{4}$ = Rs. 3,750

Q's share will be = Rs. $\frac{5,000 \times 1}{8}$ = Rs. 625

R's share will be = Rs. $\frac{5,000 \times 1}{8}$ = Rs. 625

The following journal entry will be passed for the purpose.

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1981				Rs.	Rs.
Dec. 31	General Reserve A/c	Dr.		5,000	
	To P's capital A/c				3,750
	To Q's capital A/c				625
	To R's capital A/c				625

(2) Calculation of New Profit sharing proportion :

Old proportion = P 3/4th, Q 1/8th and R 1/8th

Q was to acquire the whole of the share of profit of R.

Therefore Q's proportion will be = 1/8th his own + 1/8th of R
= 1/4th.

New Proportion = P 3/4th, Q 1/4th.

(3) Calculation of Goodwill :

Goodwill is to be valued at three years' [illegible] profits of the last four years.

Profits during the last four [illegible]

1981	Rs.	50,000
1980	Rs.	40,000
1979	Rs	60,000
1978	Rs.	50,000
		2,00,000

Average for last four [illegible]

Goodwill of the firm = Rs [illegible]

R was having 1/4th share [illegible]

(Rs. $\frac{1,50,000}{4}$ = [illegible]

This amount will be [illegible]

As Goodwill account is not to appear in the books, the following journal entry will be passed:

JOURNAL ENTRY

Date	Particulars	L.F.	Debit Amount	Credit Amount
1981			Rs.	Rs.
Dec. 31	Q's Capital A/c Dr.		37,500	
	To R's Capital A/c			37,500

(4) **Calculation of the cost of shed :**

Cost of shed as on 30-6-1980	Rs. 10,000
Depreciation @ 5% p.a. for $1\frac{1}{2}$ year *i.e.*, upto 31.12.1981 on original cost $\left(10{,}000\times\frac{5}{100}\times\frac{3}{2}\right)$	Rs. 750
Depreciated value of Shed as on 31.12.1981	9,250

The amount of Rs. 10,000 was charged to Profit & Loss account, but the amount of Depreciation Rs. 750 was only to be charged to Profit & Loss account. Therefore, Rs. 9,250 will be shown on the credit side of revaluation account.

(5) **Calculation of new Capital :**

The total capital of the firm=Rs. 80,000

Capitals of P and Q were to be in their profit sharing ratio

P's ratio=3/4th Q's ratio=1/4th

Thus new Capital of P=80,000×3/4=Rs. 60,000

New Capital of Q=80,000×1/4=Rs. 20,000

E

PARTNERSHIP—DISSOLUTION

Problem 1. What is dissolution of partnership? In case of dissolution of a partnership firm, mention the order in which the proceeds from the sale of assets have to be utilised.

Solution : Dissolution of a firm means "the dissolution of partnership between all the partners of a firm".

[*Indian Partnership Act, 1932 (Sec. 39)*]

In case of dissolution of a firm, the business of the firm is closed down and its affairs are wound up by selling and realising assets and property and by paying the liabilities and discharging the partners.

The amounts realised by sale of assets and properties are utilised in the following order:

I. In paying off the debts and liabilities of the firm to persons who are not partners therein, *e.g.* Government dues, bank loans, fully secured creditors, partly secured creditors, unsecured creditors, outstanding expenses, etc.

II. In repaying loans and advances taken from partners.

III. Each partner will then be paid rateably what is due from the firm to him in respect of his capital.

IV. If there is any surplus left after the above payments, it is divided among the partners in their profit sharing proportions.

Problem 2. What is Realisation Account? Give the entries needed to close the books of the firm upon its dissolution.

Solution. The dissolution of a firm is its end, so the accounts of the various assets and liabilities appearing on the date of the dissolution should also be closed. It also becomes necessary to record the amounts realised on sale of assets, payment to liabilities and profit or loss on account of realisation.

A special account styled "Realisation Account" will have to be opened for this purpose, in order that the whole of the above information may be ascertained therefrom.

ACCOUNTING TREATMENT FOR CLOSING PARTNERSHIP BOOKS ON DISSOLUTION

Sl. No.	*Steps to be followed*	*Account to be Debited*	*Account to be Credited*
1.	To close the various assets accounts, open a Realisation Account, and transfer thereto the book value of the assets except cash and bank balances	Realisation	All assets
2.	If there is any debit balance of Profit & Loss account appearing on the assets side, transfer the same to partners in their profit sharing ratio	Partners' capitals	Profit & loss account
3.	Assets against which a provision (e.g. provision for doubtful debts) has been kept should be transferred to the debit side of realisation account at gross figure. The provision should be transferred separately to Realisation Account	Realisation Provision for doubtful debts	Sundry debtors Realisation

4.	To close all the liabilities to third parties	Outside liabilities	Realisation
5.	If there is any Reserve fund, or credit balance of accumulated profits, transfer that to partners' capital in their profit sharing ratio	Reserve fund or Accumulated profit A/c	Partner's capitals
6.	For the amount realised on sale of assets	Bank	Realisation
7.	If assets are taken over by a partner	Partner's capital	Realisation
8.	For amount paid in respect of liabilities	Realisation	Bank/Cash
9.	If some partner agrees to pay any liabilities	Realisation	Partner's capital
10.	For realisation expenses incurred	Realisation	Bank
11.	If any partner agrees to bear all the realisation expenses in consideration for an agreed amount to be paid to him. (*no entry will be made for the actual realisation expenses*)	Realisation	Partner's capital
12.	The balance of the realisation account will represent either the profit or loss on realisation		
	(*i*) If there is profit (credit balance)	Realisation	Partner's capitals
	(*ii*) If there is a loss (debit balance)	Partner's capitals	Realisation
13.	If there is any loan account of a partner, the same will be paid out	Partner's loan	Bank
14.	For closing capital accounts:		
	(*i*) Amount due to the partner will be paid (credit balance in their account)	Partner's capital	Bank
	(*ii*) Amount due from any partner is received (debit balance in their account)	Bank	Partner's capital
15.	If there is any cash balance, the same should be transferred to the bank account	Bank	Cash

Note: The debit and credit totals of the Bank account will tally.

Problem 3. Patel, Shah and Joshi were in partnership sharing profits and losses in the proportion of 5 : 3 : 2.

On 31st December 1975, their Balance sheet was as under:

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
Capitals:			Plant	6,000
Patel	36,000		Investments	8,000
Shah	32,800		Stock	43,000
Joshi	5,000	73,800	Debtors	44,600
			Cash	3,000
Creditors		30,800		
		1,04,600		1,04,600

On that day, Shah died and Patel wanted to retire. They, therefore, agreed to dissolve. Joshi took over the assets and liabilities as under:

(*a*) Goodwill was valued at Rs. 60,000.

(*b*) *Investments were distributed in profit sharing ratio, as the same were not saleable.*

(*c*) Part of the stock was sold for Rs. 10,000 and the balance was valued at Rs. 28,000.

(*d*) The other assets and liabilities were valued at book value.

Prepare the necessary accounts to close the books of the firm.

(I I.B. Part I, May 1976)

Solution:

REALISATION ACCOUNT

Dr. Cr.

Particulars	Details	Amount	Particulars	Details	Amount
	Rs.	Rs.		Rs.	Rs.
To Sundry Assets:			By Sundry Liabilities:		
Plant	6,000		Creditors		30,800
Investments	8,000		By Joshi's capital A/c:		
Stock	43,000		Goodwill	60,000	
Debtors	44,600	1,01,600	Stock	28,000	
To Joshi's capital A/c:			Plant	6,000	
Creditors		30,800	Debtors	44,600	
To Profit on realisation c/d to capital accounts:			Investments (2/10th of Rs. 8,000)	1,600	1,40,200
Patel (5/10th share)	27,500		By Shah's capital A/c; Investments (3/10th of Rs. 8,000)		2,400
Shah (3/10th share)	16,500		By Patel's capital A/c: Investments (5/10th of Rs. 8,000)		4,000
Joshi (2/10th share)	11,000	55,000	By Bank (stock sold)		10,000
		1,87,400			1,87,400

PARTNER's CAPITAL ACCOUNTS

Particulars	Amounts			Particulars	Amounts		
	Patel	Shah	Joshi		Patel	Shah	Joshi
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Realisation A/c (Assets taken over)	4,000	2,400	1,40,200	By Balance b/d	36,000	32,800	5,000
To Bank (Balance paid)	59,500	46,900	—	By Realisation A/c (Profit)	27,500	16,500	11,000
				By Realisation A/c (Creditors)	—	—	30,800
				By Bank A/c (Balance received)	—	—	93,400
	63,500	49,300	1,40,200		63,500	49,300	1,40,200

BANK ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Cash	3,000	By Patel's capital A/c	59,500
To Realisation (Stock)	10,000	By Shah's capital A/c	46,900
To Joshi's capital A/c	93,400		
	1,06,400		1,06,000

Problem 4. The following was the Balance Sheet of A and B as on 31st December 1972:

BALANCE SHEET

Liabilities	*Amount*	*Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
Creditors	38,000	Cash at bank		11,500
Mrs A's loan	10,000	Stock		6,000
B's loan	15,000	Debtors	20,000	
Reserve fund	5,000	*Less:* Provision	1,000	19,000
A's capital	10,000			
B's capital	8,000	Furniture		4,000
		Plant		28,000
		Investments		10,000
		Loss in business		7,500
	86,000			86,000

The firm was dissolved on 31st December 1972 on both the parties agreeing to the following:

(1) A agreeing to take the investments at an agreed value of Rs. 8,000. He also agreed to settle Mrs. A's Loan.

(2) The other assets realised as under:

	Rs.
Stock	5,000
Debtors	18,500
Furniture	4,500
Plant	25,000

(3) Expenses of realisation came to Rs. 1,600.

(4) The creditors agreed to accept Rs. 37,000 in full settlement of their claims.

Show (1) Realisation account, (2) Bank account and (3) Partners' capital accounts. The profits and losses were shared in the ratio of 3/5th and 2/5th.

(I.I B. Part I, May 1973)

Solution:

(1)

REALISATION ACCOUNT

Dr | *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To *Sundry Assets*:			By *Sundry Liabilities*:		
Stock	6,000		Creditors	38,000	
Debtors	20,000		Provision for doubtful debts	1,000	39,000
Furniture	4,000				
Plant	28,000		By A's capital A/c		
Investments	10,000	68,000	(Investments taken)		8,000
			By Bank:		
To Bank (Expenses)		1,600	Sale proceeds of		
			Stock	5,000	
To Bank (Creditors)		37,000	Debtors	18,500	
			Furniture	4,500	
			Plant	25,000	53,000
			By Loss on realisation transferred to:		
			A's capital A/c (3/5th share)	3,960	
			B's capital A/c (2/5th share)	2,640	6,600
		1,06,600			1,06,600

(3)

PARTNER's CAPITAL ACCOUNTS

Dr. | *Cr.*

Particulars	*Amounts* A	*Amounts* B	*Particulars*	*Amounts* A	*Amounts* B
	Rs.	Rs.		Rs.	Rs.
To Realisation A/c (Investments)	8,000	—	By Balance b/d	10,000	8,000
To Loss in business	4,500	3,000	By Reserve fund	3,000	2,000
To Realisation A/c (Loss)	3,960	2,640	By Mrs. A's loan A/c	10,000	—
To Bank (Balance paid to them)	6,540	4,360			
	23,000	10,000		23,000	10,000

(*d*) *Loss in business*: The balance in this account will be shared by A and B in their profit and loss sharing ratio, *i.e.* 3 : 2.

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit amount*	*Credit amount*
1972					
Dec. 31	A's capital A/c	Dr.		4,500	
	B's capital A/c	Dr.		3,000	
	To Loss in business				7,500

Problem 5. The following is the Balance sheet of Miss Rane and Mrs. Severine as on 31st December 1974 :

Liabilities	*Amount*	*Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
Sundry creditors	25,000	Cash in hand		2,000
Bills payable	10,000	Cash at bank		10,000
Mr. Severine's loan	5,000	Stock in trade		25,000
Reserve fund	8,000	Debtors	22,000	
Miss Rane's capital	10,000	*Less*: Provisions		
Mrs. Severine's capital	30,000	for doubtful debts	2,000	20,000
		Plant & machinery		15,000
		Building & land		16,000
	88,000			88,000

The firm was dissolved on 31st December 1974. The following transactions took place:

(1) Mrs. Severine undertook to pay Mr. Severine's loan and took over 50% of the stock at a discount of 20%.

(2) Debtors realised Rs. 18,000. Balance of the stock was sold off at a profit of 30% on the cost.

(3) Sundry creditors were paid out at a discount of 10%. Bills payable were paid in full.

(4) Plant realised Rs. 25,000, Building Rs. 40,000.

Mrs. Severine took over the goodwill of the firm at a valuation of Rs. 10,000. Realisation expenses were Rs. 1,750.

Prepare Realisation account, Partners' capital accounts and Bank account.

Solution:

REALISATION ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To *Sundry Assets*:			By *Sundry liabilities*:		
Stock in trade	25,000				
Debtors	22,000		Sundry creditors	25,000	
Plant & machinery	15,000		Bills payable	10,000	
Building & land	16,000	78,000	Provision for bad		
To Bank:			& doubtful debts	2,000	37,000
Creditors	25,000				
Less: Discount			By Mrs. Severine's		
@ 10%	2,500		capital A/c		
			5% Stock	12,500	
	22,500		*Less*: Discount		
Bills payable	10,000	32,500	@ 20%	2,500	10,000
To Bank (Expenses)		1,750	By Bank:		
To Profit on realisation transferred to			50% Stock	12,500	
capital accounts:			*Add*: Profit		
Miss Rane's			@ 30%	3,750	
capital (½ share)	22,000			16,250	
Mrs. Severine's			Debtors	18,000	
capital (½ share)	22,000	44,000	Plant	25,000	
			Building	40,000	99,250
			By Mrs. Severine's capital A/c (Goodwill)		10,000
		1,56,250			1,56,250

PARTNER's CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*Amounts* Miss Rane	*Amounts* Mrs. Severine	*Particulars*	*Amounts* Miss Rane	*Amounts* Mrs. Severine
	Rs.	Rs.		Rs.	Rs.
To Realisation A/c (Stock)	—	10,000	By Balance b/d	10,000	30,000
			By Reserve fund	4,000	4,000
To Realisation A/c (Goodwill)	—	10,000	By Mr. Severine's loan	—	5,000
To Bank (Balance paid)	36,000	41,000	By Realisation A/c (Profit)	22,000	22,000
	36,000	61,000		36,000	61 000

BANK ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/d	10,000	By Realisation A/c (Liabilities paid)	32,500
To Cash in hand	2,000	By Realisation A/c (Expenses)	1,750
To Realisation A/c (Sundry assets sold)	99,250	By Miss Rane's capital A/c (Balance paid)	36,000
		By Mrs. Severine's capital A/c (Balance paid)	41,000
	1,11,250		1,11,250

Workings:

(1) Reserve Fund has been distributed among the partners in their equal profit sharing ratio by passing the following journal entry:

JOURNAL ENTRY

			Rs.	Rs.
1974 Dec. 31	Reserve fund A/c	Dr.	8,000	
	To Miss Rane's capital A/c			4,000
	To Mrs. Severine's capital A/c			4,000

(2) Mr. Severine's loan has been taken over by Mrs. Severine. The following journal entry will be passed for the purpose:

JOURNAL ENTRY

			Rs.	Rs.
1974				
Dec. 31	Mr. Severine's loan A/c	Dr.	5,000	
	To Mrs. Severine's capital A/c			5,000

Problem 6. The following is the Trial Balance of the firm of P, Q and R on 31st March 1981:

	Dr.	*Cr.*
Freehold Property (Bombay)	4,50,000	
Leasehold Property (Calcutta)	1,50,000	
Leasehold Property (Madras)	1,20,000	
Investments	60,000	
Office Furniture	10,000	
Stock (Bombay)	1,80,000	
Stock (Calcutta)	1,60,000	
Stock (Madras)	1,40,000	
Sundry Debtors	1,25,000	
Sundry Creditors		1,85,000
Capital P		5,00,000
Capital Q		4,50,000
Capital R		3,00,000
Cash at Bank	40,000	
	14,35,000	14,35,000

The partners agreed to dissolve the firm on the above date on the following terms:

(*a*) Freehold Property was sold and realised Rs. 5,00,000; Investments realised Rs. 75,000; Debtors Rs. 1,15,000 and office furniture Rs. 6,000.

(*b*) P retired from the business altogether.

(*c*) Q took over the Calcutta business and the assets in connection therewith at book values, the goodwill thereof being valued at Rs. 1,00,000.

(*d*) R took over Madras business and the corresponding assets at book values, the goodwill for the purpose being valued at Rs. 50,000.

(*e*) Expenses of Realisation amounted to Rs. 12,000.

(*f*) Bombay stock was taken over by Q and R equally at book value.

(*g*) P, Q and R shared profits in proportions respectively.

(*h*) There was un-recorded liabilities of Rs. 8,000 which was paid off.

Prepare:

(1) Realisation A/c, (2) Partner's Capital A/cs, and (3) Bank A/c to close the books of the firm, assuming that each partner finally settles his account with the firm.

(*I.I.B. Part I, November 1981*)

Solution:

(1) REALISATION ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Sundry Assets:			*By Sundry Liabilities:*		
Freehold Property:			Sundry Creditors		1,85,000
Bombay 4,50,000			*By Cash:*		
Calcutta 1,50,000			Freehold Property	5,00,000	
Madras 1,20,000	7,20,000		Investments	75,000	
Investments	60,000		Debtors	1,15,000	
Office Furniture	10,000		Office Furniture	6,000	6,96,000
Stock:					
Bombay 1,80,000			*By Q:*		
Calcutta 1,60,000			Calcutta Stock	1,60,000	
Madras 1,40,000	4,80,000		Goodwill	1,00,000	
Sundry Debtors	1,25,000	13,95,000	½ of Bombay Stock	90,000	3,50,000
To Cash (Expenses)		12,000	*By R:*		
To Cash:			Madras Stock	1,40,000	
Sundry Creditors	1,85,000		Goodwill	50,000	
Unrecorded liability	8,000	1,93,000	½ of Bombay Stock	90,000	2,80,000
			By Loss on Realisation transferred to capital accounts of:		
			P (3/5th)	53,400	
			Q (1/5th)	17,800	
			R (1/5th)	17,800	89,000
		16,00,000			16,00,000

(2) PARTTER's CAPITAL ACCOUNTS

Particulars	Amount P	Amount Q	Amount R	Particulars	Amount P	Amount Q	Amount R
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Realisation A/c (*Assets takenover*)	—	3,50,000	2,80,000	By Balance b/d	5,00,000	4,50,000	3,00,000
To Realisation A/c (*Loss on realisation*)	53,400	17,800	17,800				
To Cash (*Balancing figure*)	4,46,600	82,200	2,200				
	5,00,000	4,50,000	3,00,000		5,00,000	4,50,000	3,00,000

CASH AND BANK ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
					Rs.
	To Balance b/d	40,000		By Realisation A/c (*Expenses*)	12,000
	To Realisation A/c (*Sale Proceeds of assets*)	6,96,000		By Realisation A/c (*Payment of Liabilities*)	1,93,000
				By P	4,46,600
				By Q	82,200
				By R	2,200
		7,36,000			7,36,000

Problem 7. A, B and C are partners in a firm sharing profits and losses as 3 : 2 : 1. They decide to dissolve the firm and appoint B to realise the assets and pay liabilities. B is to receive 5% of the amounts coming to A and C as his remuneration and is to bear all expenses of realisation.

The following is the Balance sheet prepared by the firm as on the date of dissolution:

Liabilities	*Amount*	*Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
Creditors	12,000	Cash		4,000
A's capital	40,000	Debtors	42,000	
''s capital	30,000	*Less*: Provision	2,000	40,000
		Stock-in-trade		18,000
		Other Assets		17,000
		C's capital		3,000
	82,000			82,000

B realises as follows:

	Rs.
Debtors	34,000
Stock	14,000
Goodwill	1,500
Other Assets	7,900

It was found that the creditors amounting to Rs. 1,000 were omitted from Balance sheet. The creditors are paid less 5%.

PARTNER's CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance b/d	—	—	3,000	By Balance b/d	40,000	30,000	—
To Realisation A/c (Sale proceeds of assets)	—	57,400	—	By Realisation A/c (paid to creditors)	—	12,350	—
To Realisation A/c (Loss)	9,900	6,600	3,300	By Realisation A/c (Remuneration)	—	1,850	—
To Bank A/c (Balance paid)	30,100	—	—	By Bank A/c (Balance received)	—	19,800	6,300
	40,000	64,000	6,300		40,000	64,000	6,300

BANK ACCOUNT

Dr. *Cr.*

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Cash	4,000	By A's capital A/c	30,100
To B's capital A/c	19,800		
To C's capital A/c	6,300		
	30,100		30,100

Problem 8. Hiten and Nayan entered into partnership from 1st January 1974. They commenced business with a capital of Rs. 60,000 and Rs. 40,000. Profits and losses were shared in the ratio of 3 : 2.

The business was carried on for 3 years, for which the results were as under :

Year ending 31st December 1974 Profit Rs. 60,000.

Year ending 31st December 1975 Profit Rs. 44,400.

Year ending 31st December 1976 Loss Rs. 10,760.

As the business was no longer profitable, they agreed to dsssolve the partnership on 31st December 1976.

The partners drew Rs. 8,000 each per annum.

On the date of dissolution, creditors were Rs. 32,800.

The assets of the partnership realised Rs. 1,50,000, the expenses being Rs. 1,100.

The expenses of realisation amount to Rs. 1,200.

You are asked to prepare the necessary accounts to close the books of the firm.

(*I.I B. Part I, August 1978*)

Workings:

Calculation of B's Commission:

B is to receive 5% of the amounts coming to A and C as his remuneration and is to bear all expenses of realisation.

Amount coming to A	= Rs. 40,000
Less: Amount to be paid by C	= Rs. 3,000
Total amount coming to A and C	= Rs. 37,000

B will get Rs 1 850 (5% of Rs. 37,000) as his commission.

B will bear Rs. 1,200, the expenses of realisation, and as such Rs. 1,850 will be charged to the debit of realisation account and Rs. 1,200 will not be considered at all for the said purpose.

Solution:

REALISATION ACCOUNT

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To *Sundry Assets:*			By *Sundry Liabilities:*		
Debtors	4',000		Creditors	12,000	
Stock-in-trade	18,000		Provision for doubtful debts	2,000	14,000
Other Assets	17,000	77,000			
To B's capital A c			By B's capital A/c.		
Creditors	12,000		Debtor	34,000	
Add already omitted	1,000		Stock-in trade	14,000	
			Goodwill	1 500	
	13,000		Other Assets	7,900	57,400
Less. 5% less paid	650	12,350	By Loss on realisation transferred to capital accounts of.		
To B's capital A/c (Remuneration, *i.e.* 5% of Rs. 37,000 coming to A and C)			A (3/6th share)	9,900	
		1,850	B (2/6th share)	6,600	
			C (1/6th share)	3,300	[illegible]
		91,200			[illegible]

3

...ution:

REALISATION ACCOUNT

Dr. Particulars	Amount	Cr. Particulars	Details	Amount
	Rs.		Rs.	Rs.
To Sundry Assets	1,78,440	By Creditors		32,800
To Bank (expenses)	1,100	By Bank (Realisation proceeds of assets)		1,50,000
To Bank (creditors)	32,800	By Loss on realisation transferred to capital accounts :		
		Hiten (3/5th share)	17,724	
		Nayan (2/5th share)	11,816	29,540
	2,12,340			2,12,340

PARTNER's CAPITAL ACCOUNTS

Dr. Particulars	Hiten	Nayan	Cr. Particulars	Hiten	Nayan
	Rs.	Rs.		Rs.	Rs.
To Realisation A/c (Loss)	17,724	11,816	By Balance b/d	92,184	53,456
To Bank (Balance paid)	74,460	41,640			
	92,184	53,456		92,184	53,456

BANK ACCOUNT

Dr. Particulars	Amount	Cr. Particulars	Amount
	Rs.		Rs.
...ati...	1,50,000	By Realisation A/c (Expenses)	
		By Realisation A/c (Paid to creditors)	
		By Hiten's capital A/c (Balance paid)	
		By Nayan's capital A/c (Balance paid)	
	...0,000		

Problem 9. A, B and C are partners sharing Profits and 1/2, 1/3rd and 1/6th. On 31st December 1978, the following was Balance Sheet of the Firm on which date, it was decided to dissolve the partnership :

BALANCE SHEET

Liabilities		Rs.	*Assets*	Rs.
Creditors		2,500	Cash at Bank	2,000
Capital Accounts—			Sundry Assets	15,000
A	12,000		C's Capital A/c	3,500
B.	6,000	18,000		
		20,500		20,500

A tookover the business, paying Rs. 12,000 for "Sundry Assets". The goodwill of the Firm was valued at Rs. 6,000. Prepare :

(1) Realisation Account.

(2) Partners' Capital Accounts, and

(3) Cash A/c to show the final adjustments amongst the partners:

(*a*) Where C is solvent and satisfies his indebtness, and

(*b*) Where C is insolvent and is unable to bring in anything against his deficiency. *The decision in Garner v/s Murray need* Not *be applied.*

(*I I.B. Part I, October 1980*)

(1) REALISATION ACCOUNT

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Sundry Assets		15,000	By Crediters	2,500
To A (creditors)		2,500	By A (Sundry Assets)	12,000
To Profit on Realisation transferred to Capital accounts of			By A (Goodwill)	6,000
A (1/2 Share)	1,500			
B (1/3 Share)	1,000			
C (1/6 Share)	500	3,000		
		20,500		20,500

Note: A has taken over the business, therefore it is assumed:

(i) That he has paid for the goodwill of the Firm at its agreed value, and

(ii) That he has aslo taken over the liability for making payment to the creditors.

(*a*) **Where C is solvent and satisfies his indebtedness:**

(2) PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*A*	*B*	*C*	*Particulars*	*A*	*B*	*C*
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance b/a			3,500	By Balance b/d	12,000	6,000	
To Realisation A/c				By Realisation A/c (Profit)	1,500	1,000	500
Sundry Assets	12,000						
Goodwill	6,000			By Realisation A/c Creditors	2,500	—	—
To Cash A/c (*Balancing figure*)	—	7,000	—	By Cash A/c (*Balancing figure*)	2,000	—	3,000
	18,000	7,000	3,500		18,000	7,000	3,500

(3) CASH AND BANK ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/d	2,000	By B's capital A/c	7,000
To A's capital A/c	2,000		
To C's capital A/c	3,000		
	7,000		7,000

(b) **Where C is Insolvent and is unable to bring in anything against his deficiency.**

(2) PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*A*	*B*	*C*	*Particulars*	*A*	*B*	*C*
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance b/d	—	—	3,500	By Balance b/d	12,000	6,000	—
To Realisation A/c *Sundry* Assets	12,000	—	—	By Realisation A/c (Profit)	1,500	1,000	500
Goodwill	6,000	—	—	By Realisation A/c (Creditors)	2,500	—	—
To C (his deficiency)	2,000	1,000	—	By A (C's deficiency)	—	—	2,000
To Cash A/c *(Balancing figure)*	—	6,000	—	By B (C's deficiency)	—	—	1,000
				By Cash A/c *(Balancing figure)*	4,000	—	—
	20,000	7,000	3,500		20,000	7,000	3,500

(3) CASH AND BANK ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance b/d	2,000	By B's capital A/c	6,000
To A's capital A/c	4,000		
	6,000		6,000

Explanation:

When a partner is unable to pay his debts due to the firm, he is said to be Insolvent, and the Solvent partners have to bear the loss due to the insolvency of the other partner/s in their capital ratio, this being a capital loss.

If the Partners are maintaining fixed capitals, this loss in distributed in that ratio. If, however, capitals are fluctuating, their capital ratio will be determined after adjusting all the reserves and accumulated profits to the date of dissolution, but before adjusting profit or loss on Realisation Account. In case any partner is having a debit balance in his capital account and is not insolvent, he cannot be called upon to bear loss on account of insolvency of other partner/s.

Note: In the given problem, loss on account of C's insolvency amounting to Rs. 3,000 is borne by A and B in their capital ratio of 12,000 : 6,000 *i.e.* 2 : 1 respectively.

Problem 10. A, B and C were in partnership, sharing profits and losses in the proportions of 3 : 4 : 5.

The partnership was dissolved on 31st December 1974, when the position of accounts was as under:

BALANCE SHEET
as on 31st December, 1974

Liabilities	*Details*	*Amount*	*Assets*	*Amount*
	Rs.	Rs.		Rs.
Sundry creditors		10,000	Sundry Assets	38,000
Partners' loans A/c				
A's	6,000			
B's	4,000	10,000		
Partner's capitals:				
A's	10,000			
B's	6,000			
C's	2,000	18,000		
		38,000		38,000

The assets were realised in the following instalments:

First instalment Rs. 5,000; Second instalment Rs. 10,000; Third instalment Rs. 5,000; Fourth instalment Rs. 1,000; Fifth instalment Rs. 4,400; Sixth instalment Rs. 800; Seventh instalment Rs. 7,000; and Eighth and final instalment Rs. 2,400.

It was decided to distribute the instalments as and when received.

Prepare a scheme for equitable distribution amongst the partners, taking into consideration the profit sharing ratios.

(*I.I B. Part I, May 1975*)

Workings:

The scheme for equitable distribution of the various instalments will be based on the following observations:

(*a*) The partners A, B and C are sharing profits and losses in the ratio of 3 : 4 : 5, but they are having capital balances of Rs. 10,000, Rs. 6,000 and Rs. 2,000 respectively. As the distribution amongst the Partners is to be made taking into consideration the profit sharing ratios, C's capital may be taken as the basis. On this basis A's capital should be Rs. 1,200 $\left(\text{Rs. } \frac{2{,}000 \times 12 \times 3}{5 \times 12}\right)$ and that of B Rs. 1,600

$\left(\text{Rs. } \frac{2,000 \times 12 \times 4}{5 \times 12}\right)$. Hence the capital of A is in excess of his proportionate capital by Rs. 8,800 (Rs. 10,000—Rs. 1,200) and that of B by Rs. 4,400 (Rs. 6,000 – Rs. 1,600). These excess amounts of Rs. 8,800 and Rs. 4,400 will be paid to A and B respectively, before any payment is made to C.

(*b*) In between A and B, they share profits and losses in the ratio of 3 : 4, while they are having excess balances of Rs 8,800 and Rs. 4,400 respectively. Taking the excess amount of B as basis, the proportionate excess amount of A should be Rs. 3,300 $\left(\text{Rs. } \frac{4,400 \times 7 \times 3}{4 \times 7}\right)$. Hence, A must get back Rs. 5,500 (Rs. 8,800—Rs. 3,300), before any amount is paid to B, so that the respective excess amounts of A and B should be in the ratio of 3 : 4, *i.e.* Rs. 3,300 and Rs. 4,000 respectively.

Keeping the above considerations in mind, the scheme of distribution will be drawn as under:

I. The proceeds up to an amount of Rs. 10,000 will be paid to creditors.

II. The proceeds above Rs. 10,000 up to Rs. 20,000 (Rs. 10,000 + Rs. 10,000) will be used to repay the partner's loans in the ratio of 3 : 2.

III. The proceeds above Rs. 20,000 up to Rs. 25,500 (Rs. 20,000 + Rs. 5,500) will be paid to A [*working (b) above*].

IV. The proceeds above Rs. 25,500 up to Rs. 33,200 (Rs. 25,500 + Rs. 3,300 + Rs. 4,400) will be paid to A and B in the ratio of 3 : 4 [*working (b) above*]

V. The proceeds above Rs. 33,200 will be paid to A, B and C in the ratio of 3 : 4 : 5, [*working (a) above*].

STATEMENT SHOWING DISBURSEMENT OF INSTALMENTS
(SALE PROCEEDS OF ASSETS)

Instalment No.	*Amount received*	*Cumulative Amount*	*Paid to*	*Amount paid*	*Cumulative Amount*
	Rs.	Rs.		Rs.	Rs.
First	5,000	5,000	Creditors	5,000	5,000
Second	10,000	15,000	Creditors	5,000	10,000
			A's loan	3,000	13,000
			B's loan	2,000	15,000
Third	5,000	20,000	A's loan	3,000	18,000
			B's loan	2,000	20,000
Fourth	1,000	21,000	A's capital	1,000	21,000
Fifth	4,400	25,400	A's capital	4,400	25,400

			A's capital	100	25,500
			A's capital	300	25,800
	800	26,200	B's capital	400	26,200
			A's capital	3,000	29,200
			B's capital	4,000	33,200
…th	7,000	33,200	A's capital	600	33,800
			B's capital	800	34,600
…th	2,400	35,600	C's capital	1,000	35,600
	35,600			35,600	

Note. There is a loss on realisation of assets amounting to Rs. 2,400 (Rs. 38,000—Rs. 35,600). which has been shared by A, B and C in their profit & loss sharing ratio of 3 : 4 : 5, *i e.* Rs. 600, Rs. 800 and Rs. 1,000 respectively. All other amounts have been paid in full. A gets out of his capital Rs. 9,400 (Rs. 1,000+Rs. 4,400+Rs. 100+Rs. 300+Rs. 3,000+Rs. 600). B gets out of his capital Rs. 5,200 (Rs. 400+Rs. 4,000+Rs. 800) and C gets out of his capital only Rs. 1,000 (Rs. 1,000).

F

PARTNERSHIP—SALE TO A COMPANY

Problem 1. What accounting entries are passed when a partnership concern is sold to a limited company ?

Solution: If the business of the partnership firm is sold to a company, the accounting procedure to be adopted is nothing much different from the dissolution procedure. Following journal entries will be passed in the firm's books of accounts:

ACCOUNTING TREATMENT

Sl.	*Steps to be followed*	*A/c to be Debited*	*A/c to be Credited*
1.	For transferring all the assets taken over by the company to realisation account. This includes Cash or Bank balances.	Realisation	Sundry assets
2.	For transferring all the liabilities taken over by the company to realisation account.	Sundry liabilities	Realisation
3.	For recording the price payable by the purchasing company to the acquired firm, *i.e.* the Purchase consideration.	Purchasing company	Realisation
4.	(*a*) For incurring expenses on the sale.	Realisation	Bank

(b) If the purchasing company has agreed to bear these expenses.	Purchasing company	Bank
5. The assets not taken over by the company are realised separately. The difference between the book value of the asset and the amount realised is transferred to realisation account:		
(a) If there is a loss on sale of such an asset.	Cash Realisation	Asset
(b) If there is a profit on sale of such an asset.	Cash	Asset Realisation
6. The assets which are not taken over by the company but are taken by any of the partners at an agreed value:		
(a) If the agreed value is less than the book value of the assets.	Partner's capital Realisation	Asset
(b) If the agreed value is more than the book value of the asset.	Partner's capital	Asset Realisation
7. The liabilities not taken over by the company are paid off separately:		
(a) If the amount paid is less than its book value.	Liability	Cash Realisation
(b) If the amount paid is more than its book value.	Liability Realisation	Cash
8. The liabilities which are not taken over by the purchasing company, but are taken by any partner at an agreed value:		
(a) If the agreed value is less than its book value.	Liability	Partner's capital Realisation
(b) If the agreed value is more than its book value.	Liability Realisation	Partner's capital
9. The balance of realisation account will represent profit or loss on realisation which would be transferred to the capital accounts of the partners in the profit sharing proportions:		
(a) If there is a loss on realisation.	Partners capitals	Realisation
(b) If there is a profit on realisation.	*Realisation*	*Partner's* capi[illegible]

10.	When the purchase price is received from the purchasing company in the form of cash, shares and debentures.	Cash/Bank/ Shares/ Debentures	Purchasing company
11.	The assets by way of cash, bank balance, shares, debentures of the purchasing company will now be distributed amongst the partners in proportions to their respective capitals, standing after the loss or profit on realisation (and other reserves and profits) have been transferred	Partner's capitals	Cash/Bank/ Shares/ Debentures

Note: Care should be taken to distribute the shares/debentures in whole numbers only. Fraction of a share or debenture cannot be issued, so the nearest whole number of shares or debentures should be given to a partner.

G

PARTNERSHIP—AMALGAMATION

Problem 1. What is Amalgamation and why is it needed ? What is the accounting procedure.

Solution. When two or more separate business units agree to merge together to do business jointly, it is called 'Amalgamation'.

Usually, the firms carrying on similar busineeses amalgamate their concerns with a view to avoid competition, reduce unnecessary expenditure on advertisement, to make economy in the cost of management, to gain monopoly in the market, to combine the persons of various skills in the two firms, or to have more capital.

As a result of amalgamation, the old firms go out of existence and a new firm emerges. For this purpose, the merged units generally revalue their assets and liabilities, raise goodwill, their partners share the accumulated profits and reserves, take certain assets or liabilities, and so on. Therefore, they pass adjusting and closing entries. After this the new firm passes opening entries in its books.

ACCOUNTING PROCEDURE IN THE BOOKS OF OLD FIRMS

Sl. No.	*Steps to be followed*	*Account to be Debited*	*Account to be Credited*
1.	Each firm will revalue its assets and liabilities :		
	(*a*) For increase in the value of assets.	Assets	Revaluation
	(*b*) For decrease in the value of assets.	Revaluation	Assets
	(*c*) For increase in the value of liabilities.	Revaluation	Liabilities
	(*d*) For decrease in the value of liabilities.	Liabilities	Revaluation

	(e) For sharing profit on revaluation.	Revaluation	Partner's capitals
	(f) For sharing loss on revaluation.	Partner's capitals	Revaluation
2.	Assets and liabilities not taken over by new firm will be shared by partners :		
	(a) for sharing assets.	Partner's capitals	Assets
	(b) for sharing liabilities.	Liabilities	Partner's capitals
3.	Accumulated profits, reserves will be shared by partners in their profit sharing ratio.	Reserves	Partner's capitals
4.	Assets not taken over by the new firm or by the partners will be realised at their revalued price.	Cash/Bank	Assets
5.	Liabilities not taken over will be paid	Liabilities	Cash/Bank
6.	Assets taken over by the new firm at their agreed value.	New firm	Assets
7.	Liabilities taken over by the new firm at their agreed value.	Liabilities	New firm
8.	Partners capital accounts balance is transferred to the new firm's account.	Partners' capitals	New firm

ACCOUNTING ENTRIES IN THE BOOKS OF NEW FIRM

Sl. no.	*Steps to be followed*	*Account to be Debited*	*Account to be Credited*
1.	Separate opening entries are passed for the assets and liabilities taken over from the individual firms at the agreed values.	All assets	All liabilities
2.	If capital accounts are to be adjusted in the light of capital required :		Partners' capital
	(a) for the amount brought in by the partners.	Cash/Bank	Partner's capitals
	(b) for the amount withdrawn by the partners.	Partner's capitals	Cash/Bank

A balance sheet will then be prepared in the books of the new firm amalgamating all the assets and liabilities of the firms taken over. This will indicate the opening position of the new firm.

Problem 2. M/s. A & Co., having A and B as equal partners, decided to amalgamate with C & Co., having C and D as equal partners, on the following terms and conditions :

(1) The new firm to take over investments at 10% depreciation, land at Rs. 80,000 ; premises at Rs. 45,000 ; machinery at Rs. 9,000 and to take over only the trade liabilities of both the firms. The debtors being taken over at book value including reserve.

(2) The new firm to pay Rs. 12,000 to each firm for Goodwill.

(3) Typewriters at the written off value of Rs. 800, belonging to C & Co., and not appearing in the balance sheet was also not taken over by the new firm.

(4) It was also agreed that the furniture belonging to both the firms be not taken over by the new firm.

(5) All the four partners in the new firm to bring in Rs. 1,60,000 as capital in equal shares.

The following were the balance sheets of both the firms on the date of amalgamation :

BALANCE SHEETS

Liabilities	*Amounts* A & Co.	*Amounts* C & Co.	*Assets*		*Amounts* A & Co.	*Amounts* C & Co.
	Rs.	Rs.			Rs.	Rs.
Sundry creditors	20,000	10,000	Cash at bank		15,000	8,000
			Investments		10,000	8,000
Bills payable	5,000		Debtors	10,000		
Bank overdraft	2,000	10,000	*Less* :			
A's Loan	6,000		Reserve	1,000	9,000	8,000
Capitals :						
A	35,000		Furniture		12,000	6,000
B	22,000		Premises		30,000	
C		36,000	Land			50,000
D		20,000	Machinery		15,000	
General reserve	8,000	3,000	Goodwill		9,000	
Investment fluctuation fund	2,000	1,000				
	1,00,000	80,000			1,00,000	80,000

Pass journal entries in the books of both the firms and prepare a balance sheet of the new firm.

(*I.I.B. Part I, November 1973*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF A & Co.

Sl.	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
(1)	Revaluation A/c Dr.		7,000	
	To Investments			1,000
	To Machinery			6,000
	(Being depreciation in the value of investments and machinery)			
(2)	Premises Dr.		15,000	
	Goodwill Dr.		3,000	
	To Revaluation A/c			18,000
	(Being appreciation in the value of premises and goodwill)			
(3)	Revaluation A/c Dr.		11,000	
	To A's capital A/c			5,500
	To B's capital A/c			5,500
	(Being profit on revaluation transferred to partner's capitals in their equal profit sharing ratio)			
(4)	General reserve A/c Dr.		8,000	
	To A's capital A/c			4,000
	To B's capital A/c			4,000
	(Being reserve transferred to partners capitals in their equal profit sharing ratio)			
(5)	Investment fluctuation fund a/c Dr.		2,000	
	To A's capital A/c			1,000
	To B's capital A/c			1,000
	(Being balance in the investment fluctuation fund account transferred to partner's capitals)			
(6)	A's capital A/c Dr.		6,000	
	B's capital A/c Dr.		6,000	
	To Furniture A/c			12,000
	(Being furniture not taken over by the new firm transferred to partners' capitals)			

(7)	A's loan A/c	Dr.	6,000	
	To Bank A/c			6,000
	(Being A's loan refunded)			
(8)	Bank overdraft A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Being balance in bank overdraft transferred to cash at bank accounts)			
(9)	New firm's A/c	Dr.	92,000	
	To Bank A/c			7,000
	To Investments A/c			9,000
	To Premises A/c			45,000
	To Machinery A/c			9,000
	To Debtors A/c			10,000
	To Goodwill A/c			12,000
	(Being the value of assets taken over by the new firm)			
(10)	Creditors A/c	Dr.	20,000	
	Bills payable A/c	Dr.	5,000	
	Reserve for doubtful debts A/c	Dr.	1,000	
	To New firm's A/c			26,000
	(Being the value of liabilities taken over by the new firm)			
(11)	A's capital A/c	Dr.	39,500	
	B's capital A/c	Dr.	26,500	
	To New firm's A/c			66,000
	(Being the capital accounts transferred to new firm's account)			

JOURNAL ENTRIES IN THE BOOKS OF C & Co.

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Revaluation A/c	Dr.		800	
	To Investments A/c				800
	(Being the depreciation in the value of investments)				

(2)	Land A/c	Dr.	30,000	
	Typewriter A/c	Dr.	800	
	Goodwill A/c	Dr.	12,000	
	To Revaluation a/c			42,800
	(Being appreciation in the value of land, and typewriter belonging to the firm and value of goodwill recorded)			
(3)	Revaluation A/c	Dr.	42,000	
	To C's capital A/c			21,000
	To D's capital A/c			21,000
	(Being profit on revaluation transferred to partners' capitals in their equal profit sharing ratio)			
(4)	General reserve A/c	Dr.	3,000	
	To C's capital A/c			1,500
	To D's capital A/c			1,500
	(Being reserve transferred to partners capitals in their profit sharing ratio)			
(5)	Investment fluctuation fund A/c	Dr.	1,000	
	To C's capital A/c			500
	To D's capital A/c			500
	(Being balance in this fund account transferred to partners' capitals)			
(6)	C's capital A/c	Dr.	3,000	
	D's capital A/c		3,000	
	To Furniture A/c			6,000
	(Being the asset not taken over by the new firm transferred to partners' capitals)			
(7)	C's capital A/c	Dr.	400	
	D's capital A/c	Dr.	400	
	To Typewriter A/c			800
	(Being the asset of the firm not taken by the new firm transferred to partner's capitals)			

(8)	Bank overdraft A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being overdraft in the bank transferred to cash at bank account)			
(9)	Bank A/c	Dr.	2,000	
	To C's capital A/c			1,000
	To D's capital A/c			1,000
	(Being bank overdraft balance not taken over transferred to partners' capitals)			
(10)	New firm's A/c	Dr.	1,07,200	
	To Investments A/c			7,200
	To Debtors			8,000
	To Land			80,000
	To Goodwill			12,000
	(Being the value of assets taken over by the new firm)			
(11)	Creditors A/c	Dr.	10,000	
	To New firm's A/c			10,000
	(Being the value of liabilities taken over by the new firm)			
(12)	C's capital A/c	Dr.	56,600	
	D's capital A/c	Dr.	40,600	
	To New firm's A/c			97,200
	(Being the capital accounts transferred to the new firm)			

In the Book of New Firm

BALANCE SHEET

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
reditors		30,000	Cash at bank		3,800
Bills payable		5,000	Investments		16,200
Capitals:			Premises		45,000
A	40,000		Machinery		9,000
B	40,000		Debtors	18,000	
C	40,000		*Less*: Reserve		
D	40,000	1,60,000	for doubtful debts	1,000	17,000
			Goodwill		24,000
			Land		80,000
		1,95,000			1,95,000

Workings:

In the Book of A & Co.

(1) REVALUATION ACCOUNT

Dr.			*Cr.*
Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Investments (10% depreciation on Rs. 10,000)	1,000	By Premises (Rs. 45,000—30,000)	15,000
To Machinery (Rs. 15,000—Rs. 9,000)	6,000	By Goodwill (Rs. 12,000—9,000)	3,000
To Profit on revaluation transferred to: A's capital A/c (½ share) 5,500; B's capital A/c (½ share) 5,500	11,000		
	18,000		18,000

(2) BANK ACCOUNT

Dr.			*Cr.*
To Balance b/d (Cash at bank)	15,000	By Balance b/d (Bank overdraft)	2,000
		By A's loan (paid)	6,000
		By New firm's A/c (Balance transferred)	7,000
	15,000		15,000

(3) PARTNERS' CAPITAL ACCOUNTS

Particulars	Amounts A	Amounts B	Particulars	Amounts A	Amounts B
	Rs.	Rs.		Rs.	Rs.
To Furniture	6,000	6,000	By Balance b/d	35,000	22,000
To New firm's A/c (Balance transferred)	39,500	26,500	By Revaluation A/c (Profit)	5,500	5,500
			By General reserve	4,000	4,000
			By Investment fluctuation fund	1,000	1,000
	45,500	32,500		45,000	32,500

(4) NEW FIRM's ACCOUNT

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Bank A/c	7,000	By Creditors	20,000
To Investments	9,000	By Bills payable	5,000
To Premises	45,000	By Reserve for doubtful debts	1,000
To Machinery	9,000	By A's capital A/c	39,500
To Debtors	10,000	By B's capital A/c	26,500
To Goodwill	12,000		
	92,000		92,000

In the Books of C & Co.

(5) REVALUATION ACCOUNT

Dr. Cr.

Particulars		Amount	Particulars	Amount
To Investments (10% depreciation on Rs. 8,000)		800	By Land (Rs. 80,000—50,000)	30,000
To Profit on revaluation transferred to:			By Typewriter	800
C's capital A/c ($\frac{1}{2}$ share)	21,000		By Goodwill A/c	12,000
D's capital A/c ($\frac{1}{2}$ share)	21,000	42,000		
		42,800		42,800

(6) BANK ACCOUNT

Dr. *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Balance b/d (Cash at bank)		8,000	By Balance b/d (Bank overdraft)	10,000
To C's capital A/c (½ share)	1,000			
To D's capital A/c (½ share)	1,000	2,000		
		10,000		10,000

(7) PARTNER's CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	*Amounts* C	D	*Particulars*	*Amounts* C	D
	Rs.	Rs.		Rs.	Rs.
To Furniture	3,000	3,000	By Balance b/d	36,000	20,000
To Typewriter	400	400	By Revaluation A/c (Profit)	21,000	21,000
To New firm (Balance transferred)	56,600	40,600	By General reserve	1,500	1,500
			By Investments fluctuation fund A/c	500	500
			By Bank A/c	1,000	1,000
	60,000	44,000		60,000	44,000

(8) NEW FIRM's ACCOUNT

Cr. *Dr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Investments	7,200	By Creditors	10,000
To Debtors	8,000	By C's capital A/c	56,600
To Land	80,000	By D's capital A/c	40,600
To Goodwill	12,000		
	1,07,200		1,07,200

(9) In the Books of the New Firm:

JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Bank A/c	Dr.		7,000	
	Investments A/c	Dr.		9,000	
	Premises A/c	Dr.		45,000	
	Machinery A/c	Dr.		9,000	
	Debtors A/c	Dr.		10,000	
	Goodwill A/c	Dr.		12,000	
	To Creditors A/c				20,000
	To Bills payable A/c				5,000
	To Reserve for doubtful debts A/c				1,000
	To A's capital A/c				39,500
	To B's capital A/c				26,500
	(Being assets and liabilities taken over from A & Co.)				
(2)	Investments A/c	Dr.		7,200	
	Debtors A/c	Dr.		8,000	
	Land A/c	Dr.		80,000	
	Goodwill A/c	Dr.		12,000	
	To Creditors A/c				10,000
	To C's capital A/c				56,600
	To D's capital A/c				40,600
	(Being assets and liabilities taken over from C & Co.)				
(3)	Bank A/c	Dr.		14,000	
	To A's capital A/c				500
	To B's capital A/c				13,500
	(Being the amount of capital brought in by A and B, to make up the same at Rs. 40,000 each, i.e. 1/4th of Rs. 1,60,000, the total capital of the firm)				
(4)	C's capital A/c	Dr.		16,600	
	D's capital A/c	Dr.		600	
	To Bank A/c				17,200
	(Being the excess amount over Rs. 40,000 in the capital accounts of C and D paid to them)				

(10) **Calculations of the Assets and Liabilities:**

Name of the Account	*Journal Entry Number* 1	2	3	4	*Total*
	Rs.	Rs.	Rs.	Rs.	Rs.
Bank A/c	Dr. 7,000		Dr. 14,000	Cr. 17,200	Dr. 3,800
Investments A/c	Dr. 9,000	Dr. 7,200			Dr. 16,200
Premises A/c	Dr. 45,000				Dr. 45,000
Machinery A/c	Dr. 9,000				Dr. 9,000
Debtors A/c	Dr. 10,000	Dr. 8,000			Dr. 18,000
Goodwill A/c	Dr. 12,000	Dr. 12,000			Dr. 24,000
Creditors A/c	Cr. 20,000	Cr. 10,000			Cr. 30,000
Bills payable A/c	Cr. 5,000				Cr. 5,000
Res. A/c for D.D.	Cr. 1,000				Cr. 1,000
A's capital A/c	Cr. 39,500		Cr. 500		Cr. 40,000
B's capital A/c	Cr. 26,500		Cr. 13,500		Cr. 40,000
Land A/c		Dr. 80,000			Dr. 80,000
C's capital A/c		Cr. 56,600		Dr. 16,600	Cr. 40,000
D's capital A/c		Cr. 40,600		Dr. 600	Cr. 40,000

Problem 3. The Balance Sheets of Messrs A & B and Messrs C & D as on 31st July 1979 were as follows:

BALANCE SHEETS

Liabilities	*A & B*	*C & D*	*Assets*	*A & B*	*C & D*
	Rs.	Rs.		Rs.	Rs.
Capitals:			Land & Workshop	10,000	12,000
A	10,000		Machinery & Tools	7,000	8,000
B	10,000		Furniture & Fixtures	3,000	3,500
C		15,000	Sundry Debtors	6,000	8,500
D		15,000	Stock	8,000	10,000
Creditors	15,000	10,000	Cash & Bank	3,000	1,000
Outstanding expenses	2,000	3,000			
	37,000	43,000		37,000	43,000

The two firms decided to amalgamate and form into ABCD & Co. with effect from 1st August, 1979. Partners would share profit and loss equally between themselves as they were doing prior to amalgamatio... they agreed to the following revaluation of assets and liabilities;

	A & B	C & D
	Rs.	Rs.
Land & workshop	10,000	10,000
Machinery & tools	7,000	8,000
Furniture & fixtures	2,500	2,500
Sundry Debtors	5,500	7,000
Stock	8,000	8,000
Outstanding expenses	2,000	3,500

In addition to the above, it was decided:

(*i*) That the goodwill of A & B and C & D were valued at Rs. 10,0C0 and Rs. 5,000 respectively in the first instance *but* for the purposes of Balance Sheet of the *new firm*, the combined goodwill would be valued at Rs. 12,000 ; and

(*ii*) That the reconstructed capitals of partners should be Rs. 14,000 each, partners introducing cash, if necessary.

You are required to prepare:

(*i*) The Revaluation accounts of Messrs A & B and Messrs C & D and their capital accounts prior to and after amalgamation;

(*ii*) Opening Balance Sheet of the New Firm assuming that all the arrangements have been duly carried out.

(*I.I.B. Part I, November 1979*)

Solution:

In the Book of A & B

Dr. REVALUTION ACCOUNT *Cr.*

Particulars		*Amount*	*Particulars*	*Amount*
		Rs.		Rs.
To Furnitures & fixtures (Rs. 3,000—2,500)		500	By Goodwill	10,000
To Sundry Debtors (Rs. 6,000—5,500)		500		
To Profit on Revalution transferred to:				
A's Capital A/c	4,500			
B's Capital A/c	4,500	9,000		
		10,C00		10,000

Dr. PARTNER's CAPITAL ACCOUNTS Cr.

Particulars	Amounts A	Amounts B	Particulars	Amounts A	Amounts B
	Rs.	Rs.		Rs.	Rs.
To Balance c/d	14,500	14,500	By Balance b/d	10,000	10,000
			By Revaluation A/c (profit)	4,500	4,500
	14,500	14,500		14,500	14,500

Dr. A B C D & Co's ACCOUNT Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Goodwill A/c	10,000	By Creditors	15,000
To Land & workshops	10,000	By Outstanding expenses	2,000
To Machinery & tools	7,000	By A's Capital A/c	14,500
To Furniture & fixtures	2,500	By B's Capital A/c	14,500
To Sundry Debtors	5,500		
To Stock	8,000		
To Cash & Bank	3,000		
	46,000		46,000

In the Books of C & D

Dr. REVALUATION ACCOUNT Cr.

Particulars	Amount	Particulars		Amount
To Land & workshop (Rs. 12,000—10,000)	2,000	By Goodwill A/c		5,000
To Furniture & fixture (Rs. 3,500—2,500)	1,000	By Loss on revaluation transferred to:		
To Sundry Debtors (Rs. 8,500—7,000)	1,500	C's capital	1,000	
To Stock (Rs. 10,000—8,000)	2,000	D's capital	1,000	2,000
To Outstanding expenses (Rs. 3,500—3,000)	500			
	7,000			7,000

Dr. PARTNER's CAPITAL ACCOUNTS Cr.

Particulars	Amounts C	Amounts D	Particulars	Amounts C	Amounts D
	Rs.	Rs.		Rs.	Rs.
To Revaluation A/c (*Loss*)	1,000	1,000	By Balance b/d	15,000	15,000
To Balance c/d	14,000	14,000			
	15,000	15,000		15,000	15,000

Dr. A B C D & Co's ACCOUNT Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Goodwill A/c	5,000	By Creditors	10,000
To Land & workshop	10,000	By Outstanding expenses	3,500
To Machinery & tools	8,000	By C's Capital A/c	14,000
To Furniture & fixture	2,500	By D's Capital A/c	14,000
To Sundry Debtors	7,000		
To Stock	8,000		
To Cash & Bank	1,000		
	41,500		41,500

In the Books of ABCD & Co.

JOURNAL ENTRIES

Sl.	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
1.	Goodwill A/c Dr.		10,000	
	Land & workshop A/c Dr.		10,000	
	Machinery & tools A/c Dr.		7,000	
	Furniture & fixtures A/c Dr.		2,500	
	Sundry Debtors A/c Dr.		5,500	
	Stock A/c Dr.		8,000	
	Cash & Bank A/c Dr.		3,000	

	To Creditors A/c			15,000
	To Outstanding expenses A/c			2,000
	To A's Capital A/c			14,500
	To B's Capital A/c			14,500
	(Being Assets and Liabilities taken over from A & B)			
2.	Goodwill A/c	Dr.	5,000	
	Land & workshop A/c	Dr.	10,000	
	Machinery & tools A/c	Dr.	8,000	
	Furniture & fixture A/c	Dr.	2,500	
	Sundry Debtors A/c	Dr.	7,000	
	Stock A/c	Dr.	8,000	
	Cash & Bank A/c	Dr.	1,000	
	To Creditors A/c			10,000
	To Outstanding expenses A/c			3,500
	To C's Capital A/c			14,000
	To D's Capital A/c			14,000
	(Being Assets and Liabilities taken over from C & D)			
	A's Capital A/c	Dr.	750	
	B's Capital A/c	Dr.	750	
	C's Capital A/c	Dr.	750	
	D's Capital A/c	Dr.	750	
	To Goodwill A/c			3,000
	(Being the goodwill of A & B & C & D amounting to Rs. 15,000 [Rs 10,000+5,000] written off to the extent of Rs 3,000 to bring it down to the value of Rs 12,000 as the combined goodwill of the firm)			
	Cash & Bank A/c	Dr.	2,000	
	To A's Capital A/c			250
	To B's Capital A/c			250
	To C's Capital A/c			750
	To D's Capital A/c			750
	(Being the amount of Capital brought in by the partners to make up the same at Rs 14,000 each)			

BALANCE SHEET OF ABCD & CO.
as on 1st August, 1979

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Capitals:		Land & Workshop	20,000
A	14,000	Machinery & Tools	15,000
B	14,000	Furniture & Fixture	5,000
C	14,000	Sundry Debtors	12,500
D	14,000	Stock	16,000
Creditors	25,000	Cash & Bank	6,000
Outstanding expenses	5,000	Goodwill	12,000
	86,500		86,500

(Company Accounts : Issue of shares and debentures at par, premium and discount—Forfeiture of shares and re-issue of forfeited shares—Issue of Bonus shares—Simple cases of Final Accounts (only elementary knowledge of Schedule VI of the Company's Act, 1956 is expected)—Reserves and Provisions—Sinking and Reserve Funds.)

A

COMPANY ACCOUNTS—ISSUE OF SHARES

Problem 1. Define Joint Stock Company and state its main features.

Solution. A Joint Stock Company may be defined as *an association of individuals formed for the purpose of profit*, possessing a common capital contributed by the members composing it, such capital being divided into shares of which each member possesses one or more and which are transferable by the owner, the liability of each such member being limited to the face value of the shares he possesses.

The main features of a company are :

(*a*) It is an artificial person having a separate legal entity.

(*b*) It has a continuous existence, *i.e.* perpetual or uninterrupted succession.

(*c*) The liability of the members (in most of the cases) is limited.

(*d*) The management of the company is separated from its ownership.

(*e*) A company possesses a common seal as a substitute for signatures.

(*f*) A company can do only those acts or carry only those businesses which are specifically permitted for it.

(*g*) It is a voluntary association of persons formed usually for profit.

(*h*) The capital of the company is divided into small proportions or parts, each one being called as share.

(*i*) The shares of the companies are transferable in a public company, but a private company restricts the right to transfer its shares.

Problem 2. Explain the difference between a Partnership Firm and a Limited Company.

(I I B Part I, May 1971)
(I I B Part I, May 1972)

Solution. The principal points of distinction between a Partnership Firm and a Limited Company are given hereunder :

1. **Members.** The number of members in a Partnership Firm can range from two to twenty in all businesses, except banking concern

where the range of members is two to ten. The minimum number in a public company is seven without any maximum limit. A private company must have at least two members but not more than fifty.

2. **Liability.** In a partnership firm, all the partners are jointly and individually liable for the whole of the debts and liabilities of the firm. They have unlimited liability. In a limited company, the liability of the members is usually limited to the amount represented by the face value of the shares held by them.

3. **Management.** In a partnership firm, every partner is entitled to take part in the management of business. But in case of a limited company, the management is vested in the hands of a few of the shareholders elected as directors.

4. **Transfer.** A partner has no right to transfer his share in the firm to any other person without the consent of the other partners. In a public limited company, there is no restriction on the transfer of shares.

5 **Profits.** Profits are distributed in a partnership firm according to the terms of the Partnership Deed, or equally if there is no agreement. However, in a limited company the distribution of profit to the shareholders in the form of dividend is decided by the clauses of the Articles of Association of the company or by the Board of Directors.

6. **Capital.** The capital of a partnership firm can be increased or decreased by mutual agreement and is frequently affected by profits. or losses, drawings, etc. But the *Authorised capital* of a company is fixed by its Memorandum and can only be increased or decreased in accordance with the provisions of *the Indian Companies Act, 1956.*

7. **Legal Entity.** A partnership firm does not have a separate legal entity but the entity of a limited company is different from that of its members, and can sue and be sued as company like any individual.

8. **Audit of Accounts.** Audit is not compulsory unless stated in the Partnership Deed. But in the case of a limited company audit from qualified chartered accountants is compulsory.

9. **Registration.** A partnership may or may not be registered, but in the case of a company its incorporation is a must.

Problem 3. Explain briefly from a bank's viewpoint "the underwriting of shares."

(I.I B. Part I, November 1973)

Solution. 'Underwriting means an agreement entered into before the shares and debentures are offered to the public that in the event of the public not taking up the number of shares or debentures mentioned in the agreement, the underwriters will take up the balance of shares not taken up by the public. For this service, the underwriters charge an agreed rate of commission which is usually calculated on the issue price of shares and debentures. This rate of commission cannot exceed 5% of issue price of shares and in case of debentures $2\frac{1}{2}$% of the issue price of debentures or the amount or rate authorised by the Articles of Association of the company, whichever is less.

Problem 4. What is the procedure of 'Raising Capital' by a company ?

Solution. For the purpose of raising capital, a public company has to follow the undernoted procedure :

1. **Issue of Prospectus.** The Certificate of Incorporation having been obtained from the Registrar, the company requires money, with which to commence business In case of a public company, the invitation to the public to subscribe to its share capital is made by means of a 'Prospectus'. Prospectus is defined as 'any notice, circular, advertisement or other invitation to the public for subscription or purchase of any shares or debentures of a company.' Alongwith the details of profitability, soundness of the business and investment etc. to attract the investing public, the prospectus usually contains the details regarding the number of shares/debentures offered by the company to the public, the amount to be payable along with the application for each share, the date when the shares will be allotted, and the method and time of payment of the various calls.

2. **Receipt of Applications for shares.** Attached to the prospectus is an application form which is filled up by every applicant. A certain amount per share is asked to be remitted alongwith the application for shares, and is called 'Application Money'. This amount is deposited by the applicants invariably with the Bankers to the company.

3. **Allotment of shares.** When the date fixed for receipt of applications for shares expires, the bank sends all applications to the company. The Board of Directors then proceed to allot shares to the applicants, who are called upon to pay a further instalment towards the price of the shares, this is known as 'Allotment Money'.

4. **Calls for shares.** On receipt of allotment money, the company issues Share Certificates under its Common Seal. The balance due on the shares is called up from time to time by the Directors as and when required and these instalments are known as 'Calls'.

Problem 5. What do you understand by Over-subscription ? What *options are available to deal with money received on over-subscription.*

Solution. When the applications received are for more number of shares than the number of shares issued, it is called over-subscription. Under such a circumstance, allotment can be made only equal to the number of shares issued. In such a case, the directors have to refuse allotment to some applicants. For the abovesaid purpose, they may choose any of the following alternatives-

(*a*) They may totally reject the applications for excess number of shares, or

(*b*) The allotment of shares may be made to all on *pro-rata* basis. Each applicant receives the shares in the proportion of 'Total shares issued to total shares applied for', or

(*c*) They may reject some applications, and allot to the remaining applicants on *pro-rata* basis, or

(*d*) They may totally reject some applications, accept some applications in full and allot to the remaining applicants on *pro-rata* basis.

When the *pro-rata* system of allotment is made. the application money received will be in excess of the number allotted This excess money received can be either,

I. Refunded to the respective applicants, or

II. Used for adjusting the amount due on the shares allotted.

If the alternative (II) is followed, the excess money not refunded may be:

(*i*) equal to allotment money due on the shares allotted, or

(*ii*) less than allotment money due, or

(*iii*) more than allotment money due.

In case (*i*) the concerned allottees do not pay anything on allotment. In case (*ii*) the allottee is to pay only the balance on allotment of shares. In case (*iii*), the excess amount of application money is utilised, first in adjusting the allotment money in full, and the balance is adjusted towards call moneys which will be due in future.

Problem 6. What entries are usually passed with regard to issue of shares ?

Solution:

ACCOUNTING TREATMENT ON ISSUE OF SHARES

Sl.	*Transactions*	*Account Debited*	*Account Credited*
1.	On receipt of the application money	Bank	Share application
	(*a*) On allotment of shares, for transferring share application money to share capital account	Share application	Share capital
	(*b*) For refunding the application money received on the rejected applications	Share application	Bank
	(*c*) For retaining the surplus money when allotment is made *pro-rata*:		
	(*i*) in case the money is used towards allotment	Share application	Share allotment
	(*ii*) the part of surplus money exceeding the amount due on allotment	Share application	Calls in advance

3.	For allotment money becoming due	Share allotment	Share capital
4.	On receipt of allotment money	Bank	Share allotment
5.	On making (any) call from the shareholders	Share......... call	Share capital
6.	On receipt of the call money	Bank	Share.........call
7.	If shares are issued for consideration other than cash, *i.e.* in exchange of assets	Assets	Share capital

Note. The name of the type of share, *viz.* equity or preference, should be prefixed with the word 'Share'.

Problem 7. What entries are passed when a company purchases a running business ?

Solution. A company may purchase an existing business of a sole trader or a partnership or a limited company. The amount which is *to be paid by the company for the purchase of the business is called the purchase consideration.* If the value of the net assets (total assets— than purchase consideration, the for goodwill and as such, it is en the value of net assets is more than the purchase price, the company stands to gain, and such a gain is credited to capital reserve account.

ACCOUNTING TREATMENT

Sl.	*Transactions*	*Account Debited*	*Account Credited*
1.	For purchase of business at a certain agreed value	Business purchase	Vendors
2.	For assets and liabilities taken over at an agreed value	Various assets	*Various liabilities* *Business* purchase
	Note: (*i*) If the credit exceeds the debits, *debit* Goodwill A/c (*ii*) If the debit exceeds the credits, *credit* Capital Reserve A/c		
3.	For discharging the payment of the purchase consideration by paying cash/issuing shares/issuing debentures.	Vendors	Cash/Share capital/ Debentures

Problem 8. A company issued a *prospectus* inviting applications for 1,00,000 shares of Rs. 10 each, and stating that 10,000 shares will

be issued in addition as fully paid to vendors in part payment of purchase money :

Rs. 5·00 per share is payable on application.

Rs. 2 50 per share is payable on allotment.

Rs. 2·50 per share is payable on 3 months after allotment.

The capital offered was over-subscribed by 10,000 shares.

The amount due on allotment was received in full. Only Rs. 2,00,000 were received against the call due.

The purchase money of Rs. 1,50,000 was paid in full.

Make necessary entries to open the books of the company.

The authorised capital of the company was Rs. 25,00,000.

(I.I.B. Part I, May 1968)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF THE COMPANY

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(1)	Bank A/c Dr.		5,50,000	
	To Equity share application A/c			5,50,000
	(Being application money received on 1,10,000 shares @ Rs. 5·00 per share)			
(2)	Equity share application A/c Dr.		5,50,000	
	To Equity share capital A/c			5,00,000
	To Bank A/c			50,000
	(Being allotment of 1,00,000 shares and hence transfer of application money on them to share capital account. Application money on 10,000 shares refunded, because they have not been accepted due to over-subscription)			
(3)	Equity share allotment A/c Dr.		2,50,000	
	To Equity share capital A/c			2,50,000
	(Being the allotment money due on 1,00,000 shares @ Rs. 2·50 per share as per board resolution dated......)			

(4)	Bank A/c	Dr.	2,50,000	
	To Equity share allotment A/c			2,50,000
	(Being the receipt of allotment money on 1,00,000 shares @ Rs. 2·50 each)			
(5)	Equity share call A/c	Dr.	2,50,000	
	To Equity share capital A/c			2,50,000
	(Being the call money due on 1,00,000 shares @ Rs. 2·50 per share as per board resolution dated......)			
(6)	Bank A/c	Dr.	2,00,000	
	Calls in arrears A/c	Dr.	50,000	
	To Equity share call A/c			2,50,000
	(Being actual amount received on 80,000 shares @ Rs. 2·50 per share. Amount not received on 20,000 shares @ Rs. 2·50 per share transferred to calls in arrears account)			
(7)	Sundry assets A/c	Dr.	1,50,000	
	To Vendors A/c			1,50,000
	(Being the assets purchased from the the vendors at a purchase consideration of Rs. 1,50,000)			
(8)	Vendors A/c	Dr.	1,50,000	
	To Equity share capital A/c			1,00,000
	To Bank A/c			50,000
	(Being 10,000 shares @ Rs. 10 per share issued fully paid to vendors in part payment of purchase consideration, and the balance amount paid in cash)			

Problem 9. A company was formed with a capital of Rs. 15,00,000 in shares of Rs 10 each. It offered to the public 1,00,000 shares payable Re. 1 per share on application, Rs. 2 per share on allotment and Rs. 3 per share as First call. The balance of Rs 4 per share was to be called only in case of necessity. Applications were received for 90,000 shares and the shares were accordingly allotted. All the money was duly received with the exception of Allotment money on 200 shares and first call on 500 shares.

Journalise the whole of the transactions (*with full narration*) and show the opening Balance Sheet of the Company.

(*I.I.B. Part I, April 1*

Solution:

In the Books of Company

JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Bank A/c	Dr.		90,000	
	To Share application A/c				90,000
	(For the amount received on 90,000 shares towards application money @ Re. 1 per share)				
(2)	Share application A/c	Dr.		90,000	
	To Share capital A/c				90,000
	(Being the application money transferred to share capital account)				
(3)	Share allotment A/c	Dr.		1,80,000	
	To Share capital A/c				1,80,000
	(Being allotment money due on 90,000 shares @ Rs. 2 per share)				
(4)	Bank A/c	Dr.		1,79,600	
	Calls in arrears (Allotment) A/c	Dr.		400	
	To Share allotment A/c				1,80,000
	(Being the amount received on 89,800 share @ Rs. 2 per share)				
(5)	Share first call A/c	Dr.		2,70,000	
	To Share capital A/c				2,70,000
	(Being the amount in respect of first call due on 90,000 shares @ Rs. 3 per shares)				
(6)	Bank A/c	Dr.		2,68,500	
	Calls in arrears (First call) A/c	Dr.		1,500	
	To Share first call A/c				2,70,000
	(Being amount of first call received on 89,500 shares @ Rs. 3 per share)				

BALANCE SHEET

Liabilities	*Figures for the current year*	*Assets*	*Figures for the current year*
	Rs.		Rs.
		Fixed Assets:	—
Share Capital		Investments:	—
Authorised:		Current Assets, Loans and Advances:	
1,50,000 shares of Rs. 10 each	15,00,000		
Issued		(*A*) *Current Assets*:	
1,00,000 shares of Rs. 10 each	10,00,000	Cash at bank	5,38,100
		(*B*) *Loans and Advances*:	—
Subscribed:		Miscellaneous Expenditure:	—
90,000 shares of Rs. 10 each	9,00,000		
Called up:			
90,000 share @ Rs. 6 each	5,40,000		
Paid up:			
90,000 shares @ Rs. 6 each *called up* 5,40,000			
Less : Calls in arrears on:			
Allotment 400			
First call 1,500 1,900	5,38,100		
Reserves and Surplus:	—		
Secured Loans:	—		
Unsecured Loans:	—		
Current Liabilities and Provisions:	—		
	5,38,100		5,38,100

Workings:

Dr. CASH AT BANK *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
1.	To Share Application	90,000		By Balance c/d	5,38,100
4.	To Share Allotment	1,79,600			
6.	To Share First call	2,68,500			
		5,38,100			5,38,100

B

COMPANY ACCOUNTS—ISSUE OF SHARES—AT PREMIUM AND AT DISCOUNT

Problem 1. What do you mean by issuing shares at a premium ? Give proforma entries when the shares are issued at a premium.

Solution. When the shares are issued at a price which is higher than its face value, shares are said to be issued at a premium. The difference between the issue price and the face value of the share is called its premium.

The premium received on issue of shares must be transferred to a separate account styled 'Share premium account'.

According to Sec. 78 of the Indian Companies Act, 1956 the amount transferred to share premium account can be utilised only for the following purposes:

1. To issue fully paid bonus shares.
2. To write off the preliminary expenses of the company,
3. To write off the expenses of, or the commission paid, or discount allowed on any issues of shares or debentures of the company.
4. To pay the premium on the redemption of any redeemable preference shares or on any debentures of the company.

The amount of the premium is included in the amount receivable on application or allotment or even with one of the calls.

ACCOUNTING TREATMENT

Sl.	*Transactions*	*Account Debited*	*Account Credited*
1.	When premium is received with application money:		
	(*a*) On receiving application money	Bank	Share application

(*b*) For transferring application money to share capital and share premium	Share application	*Share capital* *Share premium*
2. When premium is received with allotment:		
(*a*) For making the allotment due with premium	Share allotment	Share capital Share premium
(*b*) On receipt of the amount	Bank	Share allotment
3. When premium is received on calls		
(*a*) For making the...call due, with premium	Share... call	Share capital Share premium
(*b*) *On receipt of the amount*	Bank	*Share...call*

Note: The name of the type of share, *viz.* equity or *preference* should be prefixed with the word 'Share'.

Problem 2. How would you deal with Discount on issue of *shares ?*

Solution. A new company is not allowed to issue shares at a discount, *i.e.* at a price which is less than its face value. As per the *provisions of Sec. 79 of the Indian Companies Act, 1955,* a company can issue its shares at a discount only if the following conditions are fulfilled:

1. The issue of the shares at a discount must be authorised by a *resolution passed by the company* in general meeting and must be sanctioned by the Court (Company Law Board).
2. The *resolution* must specify the maximum rate of discount at which the shares are to be issued. This rate must not exceed *10% except with the sanction of the* Central Government.
3. At least one year must have elapsed after the commencement of business.
4. The shares to be issued at a discount must be of a class which has already been issued by the company.
5. The shares must be issued *within two months of the date on* [illegible] the Court (Company Law [illegible] as the Court (Company [illegible]

When shares are issued at a discount, a special account, 'Discount on issue of shares account' will be opened and is debited at the time of allotment of shares. The journal entries will be as shown on the next page:

Sl.	Transactions	Account to be Debited	Account to be Credited
1.	On receiving application money	Bank	Share application
2.	For transferring application money to share capital A/c	Share application	Share capital
3.	For making allotment due	Share allotment Discount on issue of shares	Share capital
4.	On receiving allotment money	Bank	Share allotment

Every prospectus relating to the issue of shares and every balance sheet issued by the company subsequently to the issue of shares at a discount must contain particulars of the discount allowed on the issue of shares or of so much of the discount as has not been written off at the date of the issue of the prospectus or balance sheet.

C

COMPANY ACCOUNTS—FORFEITURE OF SHARES AND RE-ISSUE OF FORFEITED SHARES

Problem 1. Under what circumstances can a company forfeit its shares ? How would you deal with share forfeiture account, before the re-issue of such shares and after their re-issue ?

Solution. If a member does not pay the amount due on various calls, the directors have a right to charge interest according to the terms of the Articles of Association from the due date of the call up to the date of payment. However, if a member does not pay at all, the directors must serve a 14 days notice on the defaulting member requiring the payment of unpaid call/s (call in arrear) together with the accrued interest. The notice shall also state that, in the event of non-payment on or before the last day of the notice, the shares mentioned therein will be liable to be forfeited. If the member still does not pay the call, his case is put up before the board of directors, who can then decide to forfeit the amount already paid on the shares and cancel the shares. The amount paid by the member is not to be returned to him.

The effect of forfeiture of shares is that the defaulting shareholder ceases to be a member in respect of the forfeited shares, and the moneys paid by him on the shares prior to the forfeiture belongs to the company.

ACCOUNTING TREATMENT OF FORFEITURE OF SHARES

Sl.	*Transactions*	*Account Debited*	*Account Credited*
1.	For recording calls in arrears	Calls in arrears	...Calls
2.	On forfeiture of shares	Share capital (amount called up)	Calls in arrears (Unpaid amount) Share forfeiture (Amount paid)
*3.	If share premium is also due on shares to be forfeited	Share capital (Amount called up) Share premium (Premium due)	Calls in arrears (Unpaid amount) Share forfeiture (Amount paid)
4.	If shares to be forfeited were issued at a discount	Share capital (Amount called up)	Share Forfeiture (Amount paid) Calls in Arrears (Unpaid amount) Discount on issue of shares

**Premium received on the original issue of the forfeited shares is not to be cancelled on the forfeiture of shares, because premium once collected cannot be cancelled.*

The forfeited shares can be re-issued by the directors within a reasonable time and at a reasonable price. Such shares can be re-issued even at a discount, but this discount must not exceed the amount actually received already on such forfeited shares. The discount allowed on re-issue is debited to the share forfeiture account.

If the discount allowed is less than the amount forfeited on the re-issued shares, the profit so earned is transferred to the Capital Reserve account.

The amount forfeited on shares not yet re-issued is not to be transferred to Capital Reserve account but will remain in the share forfeiture account. The credit balance standing in the share forfeiture account relating to the shares forfeited but not yet re-issued is to be shown in the balance sheet along with the share capital.

ACCOUNTING TREATMENT OF RE-ISSUE OF FORFEITED SHARES

Sl.	*Transactions*	*Account Debited*	*Account Credited*
1.	For re-issuing the forfeited shares	Bank (Actual amount received) Share forfeiture (Discount allowed on re-issue)	Share capital (amount called up)
2.	For transferring profit on re-issue of forfeited shares to capital reserve	Share forfeiture	Capital reserve

Problem 2. On 1st January 1969, the Directors of X Ltd., decide to issue 1,00,000 shares of Rs. 10 each, Rs. 2·50 payable on application and Rs. 2·50 payable on allotment.

Applications are received for 1,20,000 shares. On 10th January, the Directors decide to reject applications in respect of 20,000 shares, the application money being refunded in full. All allotment monies are received in full.

On 31st March, a call of Rs. 2·50 per share is made and all sums due are received except on 1,000 shares allotted to Mr. A. Subsequently these shares were forfeited.

Pass necessary journal entries to record the transactions.

(*I.I.B. Part I, November 1969*)

Solution:

In the Books of X Ltd.

JOURNAL ENTRY

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1969			Rs.	Rs.
Jan.	Bank A/c Dr.		3,00,000	
	To Equity share application A/c			3,00,000
	(For amount received on 1,20,000 shares @ Rs. 2·50 per share)			

1969			Rs.	Rs.
Jan. 10	Equity share application A/c	Dr.	3,00,000	
	To Equity share capital A/c			2,50,000
	To Bank A/c			50,000
	(Being amount transferred to share capital account for 1,00,000 shares @ Rs. 2·50 per share; and the amount on 20,000 shares @ Rs. 2·50 per share returned on the rejected applications)			
Jan. 10	Equity share allotment A/c	Dr.	2,50,000	
	To Equity share capital A/c			2,50,000
	(Being allotment money due on 1,00,000 shares @ Rs 2·50 per share as per Board resolution dated.........)			
	Bank A/c	Dr.	2,50,000	
	To Equity share allotment A/c			2,50,000
	(Being amount received on 1,00,000 shares @ Rs. 2·50 per share)			
Mar. 31	Equity share first call A/c	Dr.	2,50,000	
	To Equity share capital A/c			2,50,000
	(Being amount due in respect of first call on 1,00,000 shares @ Rs. 2·50 per share as per Board resolution dated ——)			
	Bank A/c	Dr.	2,47,500	
	Calls in arrears A/c	Dr.	2,500	
	To Equity share first call A/c			2,50,000
	(Being first call money received on 99,000 shares @ Rs. 2·50 per share)			
	Equity share capital A/c	Dr.	7,500	
	To Share forfeiture A/c			5,000
	To Calls in arrears A/c			2,500
	(Being the forfeiture of 1,000 shares allotted to Mr. A @ Rs. 7·50 per share called up, for the non-payment of first call of Rs. Rs. 2 50 per share as per Board resolution dated——)			

Problem 3. A limited company has an authorised capital of Rs. 2,50,000 divided into 25,000 shares of Rs. 10 each. Of these, 4,000 shares were issued to the Vendors as fully paid, 8,000 shares were subscribed for by the public, and during the first year Rs. 2 per share were paid on application, Rs. 2 per share on allotment and Re. 1 per share were called up. 2,000 shares were issued as fully paid to other than the vendors, in payment of property purchased.

On the 8,000 shares subscribed for by the public, these had been paid at the end of the first year:

On 6,000 shares the full amount called up.

On 1,250 shares Rs. 4 per share (application and allotment money).

On 750 shares Rs. 2 per share (application money only).

The directors forfeited the 750 shares on which only Rs. 2 per share had been paid.

You are required to submit journal and cash book entries recording the capital transactions of the company, and to set out the capital as it would appear in the company's balance sheet at the end of the first year.

(*I.I.B. Part I, November 1966*)

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*	*L F.*	*Debit Amount* Rs.	*Credit Amount* Rs.
(1)	Sundry assets A/c Dr. To Vendors A/c (Being the assets purchased from the vendors at a purchase consideration of Rs. 40,000 payable in 4,000 fully paid shares of Rs. 10 each)		40,000	40,000
(2)	Vendors A/c Dr. To Equity share capital A/c (Being 4,000 shares @ Rs. 10 per share fully paid issued to vendors in payment of the purchase consideration)		40,000	40,000
(3)	Property A/c Dr. To Equity share capital A/c (Being the issue of 2,000 fully paid shares @ Rs. 10 per share for the purchase of property)		20,000	20,0

(4)	Equity share application A/c Dr. To Equity share capital A/c (Being application money received on 8,000 shares @ Rs 2 per share recorded in the cash book, transferred to equity share capital A/c)	16,000	16,000
(5)	Equity share allotment A/c Dr. To Equity share capital A/c (Being the allotment money due on 8,000 shares @ Rs. 2 per share as per the board resolution dated——)	16,000	16,000
(6)	Calls in arrears (allotment) A/c Dr. To Equity share allotment A/c [Being the allotment money received on 7,250 shares @ Rs. 2 per share recorded in the cash book, but the amount on 750 shares not received, transferred to calls in arrears (allotment) A/c)	1,500	1,500
(7)	Equity share first call A/c Dr. To Equity share capital A/c (Being the amount in respect of first call money due on 8,000 shares @ Re. 1 per share as per board resolution dated——)	8,000	8,000
(8)	Calls in arrears (first call) A/c Dr. To Equity share first call A/c [Being the first call money received on 6,000 shares @ Re. 1 per share recorded in the cash book, but the amount not received on 2,000 shares transferred to calls in arrears (first call) A/c]	2,000	2,000
(9)	Equity share capital A/c Dr. To Calls in arrears (allotment) A/c To Calls in arrears (first call) A/c To Share forfeiture A/c (Being the forfeiture of 750 shares @ Rs. 5 per share called up, for the non-payment of allotment money @ Rs. 2 per share as per board resolution dated———)	3,750	 1,500 750 1,500

Note. The 750 shares, which have been forfeited are those shares on which only application money @ Rs. 2 per share is received. Therefore, the amount forfeited is Rs. 1,500.

The credit balance standing in the share forfeiture account relating to the shares forfeited but not yet re-issued is to be shown in the balance sheet along with share capital.

Dr. CASH BOOK *Cr.*

Receipts	*L.F.*	*Amount*	*Payments*	*L.F.*	*Amount*
		Rs.			Rs.
To Equity share application A/c (Application money on 8,000 shares @ Rs. 2 per share)		16.000	By Balanec c/d		36,500
To Equity share allotment A/c (Allotment money on 7,250 shares @ Rs. 2 per share)		14,500			
To Equity share first call A/c (First call money @ Re. 1 per share on 6,000 shares)		6,000			
		36,500			36,500

BALANCE SHEET

of..........Co. Ltd.
as at————

Figures for the previous year	*Liabilities*	*Details*	*Figures for the current year*	*Figures for the previous year*	*Assets*	*Details*	*Figures for the current year*
Rs.		Rs.	Rs.	Rs.		Rs.	Rs.
	Share Capital :				**Fixed Assets :**		
	Authorised :				Sundry Assets (of vendors)	40,000	
	25,000 equity shares of Rs. 10 each		2,50,000		Property	20,600	60,000
					Investments :		
	Issued : 14,000 equity shares @ Rs. 10 each		1,40,000		**Current Assets Loans and Advances :** (A) *Current Assets* :		
	Subscribed : 14,000 equity shares @ Rs. 10 each		1,40,000		Cash and bank balance		36,500
					(A) *Loans and Advances*		—
	Called up : 6,000 equity shares @ Rs. 10 per share	60,000					
	8,000 equity shares @ Rs. 5 each	40,000	1,00,000				
	Paid up : 4,000 equity shares fully paid up @ Rs. 10 per share issued to vendors	40,000					
	2,600 equity shares fully paid up @ Rs. 10 per share issued in payment of property purchased	20,000					
	Total c/fd	60,000	—		Total c/f		

Total b/fd	60,000		Total b/fd	96,500
8,000 equity shares @ Rs. 5 per share called up subscribed by the public	40,000			
	1,00,000			
Less : Calls in arrears (first call)	1,250			
	98,750			
Less : 750 shares forfeited	3,750			
	95,000			
Add : Share forfeiture	1,500	96,500		
		96,500		96,500

Problem 4. X Y Z Ltd., a public company was registered with an Authorised Capital Rs. 2,00,000 divided into 20,000 equity shares of Rs. 10 each. It offered to public 10,000 shares of Rs. 10 each :

(1) Rs. 2·50 per share was payable on application.

(2) Re. 2·50 per share payable on allotment.

(3) First call on all the shares, was made @ Rs. 2·50 per shaee.

All the above payments were duly received except that of Mr. X holding 100 shares who did not pay the first call.

(4) A final call was made @ Rs. 2·50 per share.

(5) All the share holders, except Mr. X who was holding 100 shares, paid up the call on due date.

(6) 100 shares of Mr. X were forfeited and re-issued @ Rs. 8 per share for cash.

Make Journal entries to record the above transactions in the books of the company. Show how it will appear in the Balance Sheet of the Company after all the above transactions.

(I.I.B. Part I, November 1981)

Solution:

In the Books of XYZ Ltd.

JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Bank A/c	Dr.		25,000	
	To Share application A/c				25,000
	(For the amount received on 10,000 shares towards application money @ Rs. 2·50 per share)				
(2)	Share application A/c	Dr.		25,000	
	To share capital A/c				25,000
	(Being application money transferred to Share capital A/c)				
(3)	Share allotment A/c	Dr.		25,000	
	To Share capital A/c				25,000
	(Being allotment money due on 10,000 shares @ Rs. 2·50 per share as per Board of Directors Resolution No. ——)				
(4)	Bank A/c	Dr.		25,000	
	To Share allotment A/c				25,000
	(Being amount received on 10,000 shares @ Rs. 2·50 per share)				
(5)	Share first call A/c	Dr.		25,000	
	To Share capital A/c				25,000
	(Being the amount in respect of first call due on 10,000 shares @ Rs. 2·50 per share as per Board of Directors Resolution No.——)				
(6)	Bank A/c	Dr.		24,750	
	Calls in Arrears (First call) A/c	Dr.		250	
	To Share first call A/c				25,000
	(Being the amount of first call received on 9,900 shares @ Rs. 2·50 per share)				

(7)	Share final call A/c	Dr.	25,000	
	To Share capital A/c			25,000
	(Being the final call due on 10,000 shares @ Rs. 2·50 per share as per Board of Directors Resolution No. ——)			
(8)	Bank A/c	Dr.	24,750	
	Calls in Arrears (Final call) A/c	Dr.	250	
	To Share final call A/c			25,000
	(Being final call money received on 9,900 shares @ Rs. 2·50 per share)			
(9)	Share capital A/c	Dr.	1,000	
	To Calls in Arrears (First call) A/c			250
	To Calls in Arrears (Final call) A/c			250
	To Share forfeiture A/c			500
	(Being forfeiture of 100 share full called up @ Rs. 10 per share, for the non-payment of first call and final call)			
(10)	Bank A/c	Dr.	800	
	Share forfeiture A/c	Dr.	200	
	To Share capital A/c			1,000
	(Being reissue of 100 shares @ Rs. 8 per share)			
(11)	Share forfeiture A/c	Dr.	300	
	To Capital reserve A/c			300
	(Being the profit on re-issue of 100 forfeited shares transferred to Capital Reserve A/c)			

BALANCE SHEET OF XYZ LTD.

as on——

Liabilities & Capital	*Amount*	*Properties & Assets*	*Amount*
	Rs.		Rs.
Share Capital		**Fixed Assets**	—
Authorised:		**Investments**	—
20,000 equity shares of Rs. 10 each	2,00,000	**Current Assets**	
		Loans and Advances	

Issued:		*(A) Current Assets*	
10,000 Equity shares Rs. 10 each	1,00,000	Cash at Bank	1,00,300
Subscribed & called up:		*(B) Loans & Advances*	—
10,000 Equity shares of Rs. 10 each	10,00,000	**Miscellaneous expenditure**	—
Paid up:			
10,000 Epuity shares of Rs. 10 each	1,00,000		
Reserves and Surplus			
Capital Reserve	300		
Secured Loans	—		
Unsecured Loans	—		
Current Liabilities & Provisions			
(A) *Current Liabilities*	—		
(B) *Provisions*	—		
	1,00,300		1,00,300

Problem 5. ABC Ltd. having a nominal capital of Rs. 15,00,000 in shares of Rs. 100 each, invited applications for 10,000 shares payable as under:

	Rs.
On application	20
On allotment	30
On first call	25
On second call	25

The company received applications for 12,000 shares. All the shares issued for applications were accepted. The company returned back the application monies on excess number of shares applied for.

All the monies due as stated above were received with the exception of the second call on 250 shares.

These shares were forfeited and re-issued as fully paid at Rs. 90 per share.

Pass journal entries and show how the share capital account will stand in the Balance Sheet.

(I.I.B. Part I, November 1970)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF ABC Ltd.

Sl.	Particulars		L F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Bank A/c	Dr.		2,40,000	
	To Equity share application A/c				2,40,000
	(For amount received on 12,000 applications @ Rs. 20 per share)				
(2)	Equity share application A/c	Dr.		2,40,000	
	To Equity share capital A/c				2,00,000
	To Bank A/c				40,000
	(Being amount transferred to share capital account for 10 000 shares @ Rs. 20 per share; and the amount on 2,000 excess number of shares applied for @ Rs. 20 per share returned back)				
(3)	Equity share allotment A/c	Dr.		3,00,000	
	To Equity share capital A/c				3,00,000
	(Being allotment money due on 10,000 shares @ Rs. 30 per share as per resolution of the Board of directors dated——)				
(4)	Bank A/c	Dr.		3,00,000	
	To Equity share allotment A/c				3,00,000
	(Being allotment money received on 10,000 shares @ Rs. 30 per share)				
(5)	Equity share first call A/c	Dr.		2,50,000	
	To Equity share capital A/c				2,50,000
	(Being amount due in respect of first call on 10,000 shares @ Rs. 25 per share as per board resolution dated ——)				
(6)	Bank A/c	Dr.		2,50,000	
	To Equity share first call A/c				2,50,000
	(Being amount of shares first call received on 10,000 shares)				

			Dr.	Cr.
(7)	Equity share final call A/c	Dr.	2,50,000	
	To Equity share capital A/c			2,50,000
	(Being amount due in respect of second and final call on 10,000 shares @ Rs. 25 per share as per board resolution dated——)			
(8)	Bank A/c	Dr.	2,43,750	
	Calls in arrears (final call) A/c	Dr.	6,250	
	To Equity share final call A/c			2,50,000
	(Being final call money received on 9,750 shares @ Rs. 25 per share)			
(9)	Equity share capital A/c	Dr.	25,000	
	To Share forfeiture A/c			18,750
	To Calls in arrears (final call) A/c			6,250
	(Being the forfeiture of 250 shares for the non-payment of final call of Rs. 25 per share as per board resolution dated——)			
(10)	Bank A/c	Dr.	22,500	
	Share forfeiture A/c	Dr.	2,500	
	To Equity share capital A/c			25,000
	(Being the re-issue of 250 forfeited shares of Rs. 100 each at Rs. 90 per share)			
(11)	Share forfeiture A/c	Dr.	16,250	
	To Capital reserve A/c			16,250
	(Being the profit on re-issue of 250 forfeited shares transferred to capital reserve A/c)			

Note: The profit is calculated as under:

	Rs.
Amount forfeited on 250 shares @ Rs. 75 per share	18,750
Less: Discount allowed on re-issue of 250 shares @ Rs 10 per share (Rs. 100 – 90)	2,500
Profit on re-issue	16,250

BALANCE SHEET OF ABC LTD.

as at ——

Figures for the previous year	Liabilities	Figures for the current year	Figures for the previous year	Assets	Figures for the current year
Rs.		Rs.	Rs.		Rs.
	Share Capital:			**Fixed Assets;**	
	Authorised:			**Investments:**	
	15,000 shares of Rs. 100 each	15,00,000		**Current Assets, Loans and Advances:**	
	Issued:				
	10,000 shares of Rs. 100 each	10,00,000		(A) *Current Assets:*	
	Subscribed:				
	10,000 shares of Rs. 100 each	10,00,000		Cash at Bank	10,16,250
	Called up:			(B) *Loans & Advances:*	—
	10,000 shares of Rs. 100 each fully called up	10,00,000		**Miscellaneous Expenditure**	—
	Paid up:				
	10,000 shares of Rs. 100 each fully paid up	10,00,000			
	Reserves and Surplus:				
	Capital Reserve	16,250			
	Secured Loans:	—			
	Unsecured Loans:	—			
	Current Liabilities and Provisions	—			
	(A) *Current Liabilities*	—			
	(B) *Provisions:*				
		10,16,250			10,16,250

Note: The figures of balance at bank is arrived at as under :

BANK ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
1.	To Equity share application A/c	2,40,000	2.	By Equity share application A/c	40,000
4.	To Equity share allotment A/c	3,00,000		By Balance c/d (*Balancing figure*)	10,16,250
6.	To Equity share first call A/c	2,50,000			
8.	To Equity share final call A/c	2,43,750			
10.	To Equity share capital A/c	22,500			
		10,56,250			10,56,250

Problem 6. Give Journal entries for the following transaction (*including naration*) :

X Ltd. forfeited 30 shares of Rs. 10 each fully called up, held by Karim for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He had paid the application money of Rs 3 per share. These shares were re-issued to Salim for Rs. 8 per share.

(*I.I.B. Part I, November 1979*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF X LTD.

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
1.	Equity share capital A/c Dr.		300	
	To Calls in arrears (Allot.) A/c			90
	To Calls in arrears (final call) A/c			120
	To Share forfeiture A/c			90
	(Being the forfeiture of 30 shares alloted to Karim @ Rs. 10 per share caleld up, for the non-payment of allotment money of Rs. 3 per share and final call money of Rs. 4 per share)			

2.	Bank A/c Dr.		240	
	Share forfeiture A/c Dr.		60	
	To Equity share capital A/c			300
	(Being the re-issue of 30 shares to Salim for Rs. 8 per share as Rs. 10 per share paid up)			
3.	Share forfeiture A/c Dr.		30	
	To Capital Reserve A/c			30
	(Being the profit on re-issue of 30 forfeited shares transferred to Capital reserve account)			

		Rs.
Note :	The profit is calculated as under : Amount forfeited on 30 shares @ Rs. 3 per share paid by Karim as Application money	90
Less :	Discount allowed on re-issue of 30 shares to Salim @ Rs. 2 per share (Rs. 10—8)	60
	Profit on re-issue	30

Problem 7. The directors of Neptune Company Ltd. forfeited 500 equity shares of Rs. 20 each, Rs. 15 per share called up, on which Shri Rao failed to pay the first call of Rs. 5. They re-issued these shares to Sen as Rs. 15 paid-up at Rs. 12 per share The company also made the final call of Rs. 5 which was duly paid by Sen.

Journalise these transactions in the books of the company.

(*I I B. Part I, May 1976*)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF
NEPTUNE COMPANY LTD.

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(1)	Equity share capital A/c Dr.		7,500	
	To Calls in arrears (first call) A/c			2,500
	To Share forfeiture A/c			5,000
	(Being the forfeiture of 500 shares alloted to Shri Rao @ Rs. 15 per share called up, for the non-payment of first call of Rs. 5 per share as per board resolution dated——)			

(2)	Bank A/c	Dr.	6,000	
	Share forfeiture A/c	Dr.	1,500	
	To Equity share capital A/c			7,500
	(Being the re-issue of 500 shares to Mr. Sen as Rs. 15 paid-up at Rs. 12 per share)			
(3)	Share forfeiture A/c	Dr.	3,500	
	To Capital reserve A/c			3,500
	(Being the profit on re-issue of 500 forfeited shares transferred to capital reserve A/c			
	[Note. The profit is calculated as under:	Rs.		
	Amount forfeited on 500 shares @ Rs. 10 per share paid by Shri Rao	5,000		
	Less: Discount allowed on re-issue of 500 shares to Mr. Sen @ Rs. 3 per share (Rs. 15—12)	1,500		
	Profit on re-issue	3,500		
(4)	Equity share final call A/c	Dr.	2,500	
	To Equity share capital A/c			2,500
	(Being amount due on final call @ Rs. 5 per share on 500 shares as per board resolution dated——)			
(5)	Bank A/c	Dr.	2,500	
	To Equity share final call A/c			2,500
	(Being final call money received on 500 shares @ Rs. 5 per share)			

Problem 8 The directors of M. Ltd. resolved on 1st May 1968 that 2,000 ordinary shares of Rs 10 each, Rs. 7 50 paid up, be forfeited for non-payment of the call of Rs. 2 50

On 10th June 1968, 1,000 of the shares were re-issued for Rs. 6 per share.

Show the journal entries required to give effect to the foregoing, and state what the resultant balance on forfeited shares account represents.

[I.I.B. Part I, October 1968]

The credit balance standing in the share forfeiture account relating to the shares forfeited but not yet re-issued is to be shown in the sheet along with share capital.

Solution:

JOURNAL ENTRIES IN THE BOOKS OF M. LTD.

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1968				Rs.	Rs.
May 1	Equity share capital A/c	Dr.		20,000	
	To Calls in arrears A/c				5,000
	To Shares forfeiture A/c				15,000
	(Being the forfeiture of 2,000 fully called up shares of Rs. 10 each, for the non-payment of final call of Rs. 2·50 per share as resolved by the directors vide board resolution dated 1st May, 1968)				
June 10	Bank A/c	Dr.		6,000	
	Shares forfeiture A/c	Dr.		4,000	
	To Equity share capital A/c				10,000
	(Being the re-issue of 1,000 forfeited shares of Rs. 10 each at Rs. 6 per share)				
June 10	Share forfeiture A/c	Dr.		3,500	
	To Capital reserve A/c				3,500
	(Being the profit on re-issue of 1,000 forfeited shares transferred to capital reserve account)				

Note: The profit is calculated as under:

	Rs.
Amount forfeited on 2,000 shares @ Rs. 7·50 per share Rs. 15,000	
Hence, amount forfeited on 1,000 shares (re-issued)	7,500
Less: Discount allowed on re-issue of 1,000 shares @ Rs. 4 each (Rs. 10—6)	4,000
Profit on re-issue	3,500

The balance of Rs. 7,500 in the share forfeiture account is the amount forfeited on 1,000 shares @ Rs. 7·50 per share. These are the shares which are not yet re-issued.

Problem 9. Give journal entries for the following transaction (*including narration*):

X Ltd. forfeited 10 shares of Rs. 10 each (Rs. 6 called up) issued at a discount of 10% to Neeta on which she had paid Rs. 2 *per share.* Out of these, 8 shares were re-issued to Meeta as Rs. 8 called up for Rs. 6 per share.

(*I.I.B. Part I, November 1979*)

Solution:

In the Books of X Ltd.

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
1.	Equity share capital A/c Dr.		60	
	To Calls in arrears A/c			30
	To Discount on issue of shares A/c			10
	To Share forfeiture A/c			20
	(Being the forfeiture of 10 shares @ Rs. 6 per share called up issued at a discount of 10% to Neeta, for the non-payment of call money @ Rs. 3 per share)			
2.	Bank A/c Dr.		48	
	Share forfeiture A/c Dr.		8	
	Discount on issue of shares A/c Dr.		8	
	To Equity share capital A/c			64
	(Being the re-issue of 8 forfeited shares of Rs. 10 each at a discount of 10% to Meeta as Rs. 8 per share called up for Rs. 6 per share)			
3.	Share forfeiture A/c Dr.		8	
	To Capital reserve A/c			8
	(Being the profit on re-issue of 8 forfeited shares transferred to capital reserve A/c)			

Note: The profit is calculated as under:

	Rs.
Amount forfeited on 10 shares @ Rs. 2 per share is Rs. 20. Hence, amount forfeited on 8 shares (Re-issued)	16
Less: Rebate allowed on re-issue of shares @ Rs. 6 (as Rs. 8 per share called up *less* 10% discount on the face value of Rs. 10)	8
Profit on re-issue	

The balance of Rs. 4 in the share forfeiture account is the amount forfeited on 2 shares @ Rs. 2 per share. These are the shares which are not yet re-issued.

The credit balance standing in the share forfeiture account relating to the shares forfeited but not yet re-issued is to be shown in the Balance sheet along with share capital account.

Problem 10. Janta Company Limited offered 3,00,000 Equity Shares of Rs. 10 each at Rs. 12 per share payable Rs. 3 on application (*including premium of Rs. 2*), Rs. 3 on allotment and the balance in two equal instalments at the end of 3 months and 6 months from the date of allotment respectively.

Applications for 4,10,000 shares were received by 30th June, 1978 and shares were allotted at the rate of 3 shares for every 4 shares applied for on 15th July, 1978. Rs. 30,(00 were refunded on 31st July 1978. All amounts due were received on due dates with the exception of the final call on 3,000 shares. These shares were forfeited on 21st March, 1979.

Show the Journal entries (including each) and draw a balance sheet as on 31st March 1979 to show the capital structure of the Company.

(I.I.B. Part I, April 1979)

Solution:

JOURNAL ENTRIES IN THE BOOKS OF
JANTA COMPANY LIMITED

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1978			Rs.	Rs.
June 30	Bank A/c	Dr.	12,30,000	
	To Equity share application A/c			1?,30,000
	(Being application money @ Rs. 3 per share including premium of Rs. 2 per share received on 4,10,000 shares)			

July 15	Equity share application A/c	Dr.	12,00,000	
	To Equity share capital A/c			3,00,
	To Share Premium A/c			6,00,
	To Equity share allotment A/c			3,00,
	(Being application money received adjusted by allotting 3 shares for every 4 shares applied for. Amount transferred to share capital account @ Re. 1 per share, to share premium account @ Rs. 2 per share and to share allotment account @ Re. 1 per share on 3,00,000 shares)			
July 15	Equity share allotment A/c	Dr.	9,00,000	
	To Equity share capital A/c			9,00,
	(Being allotment money due on 3,00,000 shares @ Rs. 3 per share as per Board resolution dated——)			
July 31	Equity share application A/c	Dr.	30,000	
	To Bank A/c			30,
	(Being the amount refunded on the rejected applications with letters of regret)			
	Bank A/c	Dr.	6,00,000	
	To Equity share allotment A/c			6,00,
	(Being allotment money received)			
	Note: Allotment money due	Rs. 9,00,000		
	Less: Already received with applications	3,00,000		
	Amount received	6,00,000		
Oct. 15	Equity share first call A/c	Dr.	9,00,000	
	To Equity share capital A/c			9,00,
	(Being the first call money due on 3,00,000 shares @ Rs. 3 per share as per Board resolution dated——)			

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	9,00,000	
	To Equity share first call A/c			9,00,000
	(Being the amount of first call money received in full @ Rs. 3 per share on 3,00,000 shares)			
1979 Jnn. 1	Equity share final call A/c	Dr.	9,00,000	
	To Equity share capital A/c			9,00,000
	(Being the final call money due on 3,00.000 shares @ Rs. 3 per share as per Board resolution dated —)			
	Bank A/c	Dr.	8,91,000	
	Calls in arrears (final call) A/c	Dr.	9,000	
	To Equity share final call A/c			9,00,000
	(Being final call money received on 2,97,000 shares @ Rs. 3 per share)			
Mar. 21	Equity share capital A/c	Dr.	30,000	
	To Calls in arrears (final call) A/c			9,000
	To Share forfeiture A/c			21,000
	(Being the forfeiture of 3,000 shares on which final call money was not received)			

Note: Amount forfeited comprises of:

	Rs.
Application money	3,000
Allotment money	9,000
First call money	9,000
	21,000

Note: Premium received on the original issue of the forfeited shares is not to be cancelled on the forfeiture of shares because premium once collected cannot be cancelled.

BALANCE SHEET OF JANTA COMPANY LIMITED
as at 31st March 1979

Liabilities & Capital	*Details*	*Amount*	*Properties & Assets*	*Amount*
	Rs.	Rs.		Rs.
Share Capital:			**Fixed Assets:**	—
Authorised:		—	**Investments:**	—
Issued: 3,00,000 Equity shares of Rs. 10 each		30,00,000	**Current Assets, Loans and Advances:**	
Subscribed: 3,00,000 equity shares @ Rs. 10 each		30,00,000	(A) *Current assets:* Cash at bank	35,91,000
Called up: 3,00,000 equity shares @ Rs. 10 each		30,00,000	(B) *Loans and Advances:*	—
Paid up: 2,97,000 equity shares @ Rs. 10 each	29,70,000		**Miscellaneous Expenditure:**	—
Add: Share forfeiture	21,000	29,91,000		
Reserves and Surplus:				
Share Premium (On 3,00,000 shares @ Rs. 2 per share)		6,00,000		
Secured Loans:		—		
Unsecured Loans:		—		
Current Liabilities and Provisions:				
(A) *Current Liabilities*		—		
(B) *Provisions*		—		
		35,91,000		35,91,000

Problem 11. A Ltd. issued 10,000 shares of Rs. 100 each at Rs. 120 payable as follows:

Rs. 25 on application
Rs. 45 on allotment (*including premium*)
Rs. 20 on First call and
Rs. 30 on Final call.

9,000 shares were applied for and allotted. All moneys were received with the exception of First and Final Calls on 200 shares held by Shyam. These shares were forfeited.

Give Journal entries (*with full narration*) to record the above transactions and a Balance Sheet, in the books of the Company.

(*I.I.B. Part I, May 1982*)

Solution:

JOURNAL ENTRIES IN THE BOOK OF A LTD.

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
1.	Bank A/c	Dr.		2,25,000	
	To Share application A/c				2,25,000
	(Being application money received on 9,000 shares @ Rs. 25 per share)				
2.	Share application A/c	Dr.		2,25,000	
	To Share Capital A/c				2,25,000
	(Being the amount on applications received transferred to share capital account as per board resolution dated .)				
3.	Share allotment A/c	Dr.		4,05,000	
	To Share Capital a/c				2,25,000
	To Share Premium a/c				1,80,000
	(Being allotment money due on 9,000 shares @ Rs. 45 per share, including premium @ Rs. 20 per share as per board resolution dated.........)				
4.	Bank A/c	Dr.		4,05,000	
	To Share allotment a/c				4,05,000
	(Being the amount received on allotment of 9,000 shares @ Rs. 45 per share)				
5.	Share first call a/c	Dr.		1,80,000	
	To Share Capital a/c				1,80,000
	(Being amount due in respect of 9,000 shares @ Rs. 20 per share as per board resolution dated...............)				
6.	Bank a/c	Dr.		1,76,000	
	Calls in arrears (first call) A/c	Dr.		4,000	
	To Share first call a/c				1,80,000
	(Being first call money received on 8,800 shares @ Rs. 20 per share)				

7.	Share Final Call A/c To Share Capital A/c (Being Final Call due on 9,000 shares @ Rs. 30 per share as per Board resolution dated ....)	Dr.	2,70,000	2,70,000
8.	Bank a/c Calls in arrears (final call) a/c To Share final call a/c (Being the final call money received on 8,800 shares @ Rs. 30 per share)	Dr. Dr.	2,64,000 6,000	2,70,000
9.	Share Capital a/c To Calls in arrears (first call) a/c To Calls is arrears (final call) a/c To Share forfeiture a/c (Being the forfeiture of 200 shares fully called up @ Rs. 100 each, for non payment of first and final calls of Rs. 20 and Rs. 30 each respectively as per Board resolution dated..........)	Dr.	20,000	4,000 6,000 10,000

Note : Premium received on the original issue of the shares is not to be cancelled on the forfeiture of shares because premium once collected cannot be cancelled.

The total amount received from Shyam on 200 shares is Rs. 14,000 (Rs. 25 per share with application and Rs 45 per share on allotment). But this includes premium of Rs. 4000 (@ Rs. 20 per share. Hence share forfeiture account has been credited with an amount of Rs. 10,000 only (Rs. 14,000 — 10,000).

BALANCE SHEET OF A LTD.
as on..............................

Figures for the previous year	*Liabilities & Capital*	*Figures for the current year*	*Figures for the previous year*	*Assets & Properties*	*Figures for the current year*
Rs.		Rs.	Rs.		Rs.
	Share Capital			**Fixed Assets**	
	Authorised :	...		**Investments**	
	Issued			**Current Assets**	
	10,000 shares of Rs. 100 each	10,00,000		**Loans and Advances**	
	Subscribed			*(A) Current Assets*	
				Cash at Bank	10,70,000
	9,000 shares of Rs. 100 each	9,00,000		*(B) Loans and Advances*	...
	Total c/d	—		Total c/d	10,70,000

Total b/d	—	Total b/d	10,70,000
Called up :		**Miscellaneous Expenditure**	...
9,000 shares of Rs. 100 each fully called up	9,00,000	**Profit & Loss Account**	...
Paid up			
8,800 shares @ Rs. 100 per share called up	8,80,000		
Add : Share forfeiture	10,000		
Reserves and Surplus			
Share Premium A/c	1,80,000		
Secured Loans	...		
Unsecured Loans	...		
Current Liabilities and Provisions	...		
	10,70,000		10,70,000

Workings :

Dr. SHARE CAPITAL A/C *Cr.*

Sl.	*Particulars*	*L.F.*	*Amount*	*Sl.*	*Particulars*	*L.F.*	*Amount*
1.	To Calls in arrears (first call) A/c		4,000	2.	By Share application A/c		2,25,000
	To Calls in Arrears (final call) A/c		6,000	3.	By Share allotment A/c		2,25,000
	To Share forfeiture A/c		10,000	4.	By Share 1st call A/c		1,80,000
	To Balance c/d		8,80,000	5.	By Share final call A/c		2,70,000
			9,00,000				9,00,000

CASH AT BANK A/C

1.	To Share application A/c	2,25,0 0	By Balance c/d	10,70,000
4.	To Share allotment A/c	4,05,000		
6.	To Share (first call) A/c	1,76,000		
8.	To Share (final call) A/c	2,64,000		
		10,70,000		10,70,000

SHARE FORFEITURE A/C

Sl.	Particulars	L.F.	Amount	Sl.	Particulars	L.F.	Amount
	To Balance c/d		10,000	9.	By Share capital A/c		10,000
			10,000				10,000

SHARE PREMIUM A/C

Sl.	Particulars	L.F.	Amount	Sl.	Particulars	L.F.	Amount
	To Balance c/d		1,80,000	3.	By Share allotment A/c		1,80,000
			1,80,000				1,80,000

Problem 12. The directors of Grolarge Ltd. invited applications for 15,000 equity shares of Rs. 10 each at Rs. 11·50 per share, payable as under :

Rs. 7·50 per share	on application
Rs. 2·00 per share (including Rs. 1.50 for premium)	on allotment
Rs. 2 00 per share	on first and final call.

Applications were received for 18,000 shares and it was decided to deal with them as under :

(*i*) To refuse allotment to applicants for 800 shares.

(*ii*) To give full allotment to applicants of 2,200 shares.

(*iii*) To allot the remainder of the available shares *pro-rata* among the other applicants.

(*iv*) To utilise the surplus received on applications in part payment of amounts due on allotment.

An applicant, to whom 40 shares had been alloted, failed to pay the amount due on the first and final call and his shares were forfeited. These shares ware re-issued as fully paid at Rs. 9·00 per share.

Show the necessary ledger entries to record these in the books of the company.

(*I.I.B. Part I, November 1977*)

Solution :

JOURNAL ENTRIES IN THE BOOKS OF GROLARGE LTD.

Sl.	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
(1)	Bank A/c Dr. To Equity share application A/c (For amount received on 18,000 shares @ Rs. 7 50 per share)		1,35,000	1,35,000

	Particulars		Dr.	Cr.
(2)	Equity share application A/c Dr.		1,35,000	
	To Bank A/c			6,000
	To Equity share capital A/c			1,12,500
	To Equity share allotment A/c			16,500
	(Being the amount on applications received transferred to various accounts as under :			
	(*a*) To Bank A/c : For 800 shares @ Rs. 7·50 per share for rejecting the applications Rs. 6,000			
	(*b*) To Share capital :			
	(*i*) For giving full allotment to applicants of 2,200 shares @ Rs. 7·50 per share	16,500		
	(*ii*) For giving 12,800 shares (15,000—2,200) *pro-rata* to the applicants of 15,000 shares (18,000—800 — 2,200) @ Rs. 7·50 per share	96,000		
	Rs.	1,12,500		
	(*c*) To Allotment A/c : The surplus received on application of 2,200 shares (15,000—12,800) @ Rs. 7·50 per share Rs. 16,500)			
(3)	Equity share allotment A/c Dr.		30,000	
	To Equity share capital A/c			7,500
	To Share premium A/c			22,500
	(Being allotment money due on 15,000 shares @ Rs. 2 per share, including premium @ Rs. 1·50 per share as per Board resolution dated—)			
(4)	Bank A/c Dr.		13,500	
	To Equity share allotment A/c			13,500
	(Being the amount received on allotment of 15,000 shares @ Rs. 2 per share, *i.e.* Rs. 30,000 *less* Rs. 16,500 received in advance alongwith application money)			

(5)	Equity share first & final call A/c Dr. To Equity share capital A/c (Being amount due in respect of first and final call on 15,000 shares @ Rs. 2 per share as per board resolution dated——)	30,000	30,000
(6)	Bank A/c Dr. Calls in arrears (First and final call) A/c Dr. To Equity share first and final call A/c (Being amount of shares first and final call received on 14,960 shares @ Rs. 2 per share)	29,920 80	30,000
(7)	Equity share capital A/c Dr. To Calls in arrears (first & final call) A/c To Share forefeiture A/c (Being the forfeiture of 40 shares allotted to an applicant @ Rs. 10 per share called up, for the non-payment of first and final call @ Rs. 2 per share as per Board resolution dated——) **Note:** Premium received on the original issue of the forfeited shares is not to be cancelled on the forfeiture of shares because premium once collected cannot be cancelled. The total amount received from the applicants on 40 shares is Rs. 380 (Rs. 7 50 per share on application and Rs. 2 per share with allotment. But this includes premium collected. Rs 60 @ Rs. 1·50 per share). Hence, the share forfeiture account has been credited with an amount of Rs. 320 only (Rs. 380—60)	400	80 320
(8)	Bank A/c Dr. Share forfeiture A/c Dr. To Equity share capital A/c (Being the re-issue of 40 forfeited shares of Rs. 10 each at Rs. 9 per share)	360 40	400

(9)	Share forfeiture A/c Dr.		280	
	To Capital reserve A/c			280
	(Being the profit on re-issue of 40 forfeited shares transferred to capital reserve A/c)			

Note. The profit is calculated as under:

	Rs.
Amount forfeited on 40 shares @ Rs. 8 per share	320
Less: Discount allowed on re-issue of 40 shares @ Re. 1 each (Rs. 10—9)	40
Profit on re-issue	280

Problem 13. A company invited the public to subscribe 10,000 Equity Shares of Rs. 100 each at a premium of Rs. 10 per share payable on allotment. Payments were to be made as follows:

	Rs.
On application	20
On allotment	40
On first call	30
On final call	20

Applications were received for 13,000 shares; applications for 2,000 shares were rejected and allotment was made proportionately to the remaining applicants. Both the calls were made and all the monies were received except the final call on 300 shares which were forfeited after due notices. Later 200 of the forfeited shares were issued as fully paid at Rs. 85 per share.

Pass journal entries.

(*I.I.B. Part I, October 1972*)

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(1)	Bank A/c Dr.		2,60,000	
	To Equity shares application A/c			2,60.000
	(Being application money received on 13,000 shares @ Rs. 20 per share)			

	Particulars		Dr. (Rs.)	Cr. (Rs.)
(2)	Equity share application A/c	Dr.	2,60,000	
	To Bank A/c			40,000
	To Equity share allotment A/c			20,000
	To Equity share capital A/c			2,00,000
	(Being the amount on applications received transferred to share capital for 10,000 shares @ Rs. 20 each, to share allotment account for 1,000 shares towards *pro-rata* allotment in the ratio of 11 : 10, and amount returned on 2,000 shares for the rejected applications)			
(3)	Equity share allotment A/c	Dr.	4,00,000	
	To Equity share capital A/c			3,00,000
	To Share premium A/c			1,00,000
	(Being allotment money due on 10,000 shares @ Rs. 40 per share, including premium @ Rs. 10 per share as per Board resolution dated ——)			
(4)	Bank A/c	Dr.	3,80,000	
	To Equity share allotment A/c			3,80,000
	(Being the amount received on allotment of 10,000 shares @ Rs. 40 per share *less* Rs. 20,000 received in advance along with application money)			
(5)	Equity share first call A/c	Dr.	3,00,000	
	To Equity share capital A/c			3,00,000
	(Being amount due in respect of first call on 10,000 shares @ Rs. 30 per share as per Board resolution dated ——)			
(6)	Bank A/c	Dr.	3,00,000	
	To Equity share first call A/c			3,00,000
	(Being amount of share first call received on 10,000 shares @ Rs. 30 each)			

			Dr. (Rs.)	Cr. (Rs.)
(7)	Equity share final call A/c	Dr.	2,00,000	
	To Equity share capital A/c			2,00,000
	(Being final call money due on 10,000 shares @ Rs. 20 per share as per Board resolution dated———)			
(8)	Bank A/c	Dr.	1,94,000	
	Calls in arrears (final call) A/c	Dr.	6,000	
	To Equity share final call A/c			2,00,000
	(Being final call money received on 9,700 shares @ Rs. 20 per share)			
(9)	Equity share capital A/c	Dr.	30,000	
	To Calls in arrears (final call) A/c			6,000
	To Share forfeiture A/c			24,000
	(Being the forfeiture of 300 shares fully called up @ Rs. 100 each, for the non-payment of final call of Rs. 20 per share as per Board resolution dated———)			
(10)	Bank A/c	Dr.	17,000	
	Share forfeiture A/c	Dr.	3,000	
	To Equity share capital A/c			20,000
	(Being the re-issue of 200 forfeited shares of Rs. 100 each at Rs. 85 per share)			
(11)	Share forfeiture A/c	Dr.	13,000	
	To Capital reserve A/c			13,000
	(Being the profit on re-issue of 200 forfeited shares transferred to Capital reserve account)			

Note. The profit is calculated as under:

	Rs.
Amount forfeited on 300 shares @ Rs. 80 per share	24,000
Hence, amount forfeited on 200 shares @ Rs. 80 per share	16,000
Less: Discount allowed on re-issue of 200 shares @ Rs. 15 each (Rs. 100—85)	3,000
Profit on re-issue	13,000

Notes: (A) The balance of Rs. 8,000 in the share forfeiture account is the amount forfeited on 100 shares @ Rs. 80 per share. These are the shares which are not yet re-issued.

The credit balance standing in the share forfeiture account relating to the shares forfeited but not yet re-issued is to be shown in the balance sheet along with share capital.

(B) Premium received on the original issue of the forfeited shares is not to be cancelled on the forfeiture of shares because premium once collected cannot be cancelled.

Problem 14. Exe Limited issued a prospectus inviting applications for 20,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as under:

	Rs.	
On application	2	
On allotment	5	*(including premium)*
On first call	3	
On second and final call	2	

Applications were received for 30,000 shares and *pro-rata* allotment was made on the applications for 24,000 shares. Excess money paid on applications was utilised towards allotment money.

Mr Aar, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited.

Mr. Ame, the holder of 600 shares failed to pay the two calls, and his shares were forfeited after the second call.

Of the shares forfeited, 800 shares were sold to Mr. Kay credited as fully paid for Rs. 9 per share, the whole of Mr. Aar's shares being included.

Pass the necessary entries in the journal of Exe Limited.

(I I.B. Part I, May 1977)

Solution:

In the Books of Exe Limited

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(1)	Bank A/c Dr.		60,000	
	To Equity share application A/c			60,000
	(For amount received on 30,000 shares @ Rs. 2 per share)			

(2)	Equity share application A/c Dr.	60,000	
	To Equity share application A/c		
	To Bank A/c		
	To Equity share allotment A/c		
	(Being application money on 20,000 shares @ Rs. 2 per share transferred to share capital account, on 4,000 shares to share allotment account towards *pro-rata* allotment in the ratio of 6 : 5, and on 6,000 shares amount returned for rejecting the applications)		
(3)	Equity share allotment A/c Dr.	1,00,000	
	To Equity share capital A/c		
	To Share premium A/c		
	(Being allotment money due on 20,000 shares @ Rs. 5 per share, including premium @ Rs. 2 per share as per Board resolution dated ——)		
(4)	Bank A/c Dr.	90,160	
	Calls in arrears (allotment) A/c Dr.	1,840	
	To Equity share allotment A/c		
	(Being the amount received on allotment of 19,600 shares as detailed below :		

	Rs.
Total amount due	1,00,000
Less : Received in advance along with applications	8,000
Amount due on 20,000 shares	92,000
**Less* : Money due from Aar on 400 shares not received	1,840
Amount received	90,160

***Note** : Money due from Aar on account of allotment is not Rs. 2,000, *i e.* Rs. 400×5, but Rs. 1,840 calculated as follows :
Allotment was made for 20,000 shares *pro-rata* to the applicants of 24,000 shares.
Therefore, Aar, who received 400 shares applied for 480 shares $\left(\frac{24{,}000 \times 400}{20{,}000}\right)$

Application money received (480 × Rs. 2)	960
Amount adjusted towards application (400 × Rs. 2)	800
Surplus towards allotment money	160
Amount due on allotment (400 × Rs. 5)	2,000
Less : Surplus adjusted	160
Balance due but not received	1,840

(5)	Equity shares first call A/c	Dr.	60,000	
	To Equity share capital A/c			60,000
	(Being amount due in respect of first call on 20,000 shares @ Rs. 4 per share as per board resolution dated—)			
(6)	Bank A/c	Dr.	57,000	
	Calls in arrears (first call) A/c	Dr.	3,000	
	To Equity shares first call A/c			60,000
	(Being first call money received on 19,000 shares @ Rs. 3 per share. Amount not received from Aar holding 400 shares and from Ame holding 600 shares)			
(7)	Equity seare capital A/c	Dr.	3,200	
	Share premium A/c	Dr.	800	
	To Calls in arrears (allotment) A/c			1,840
	To Calls in arrears (first call) A/c			1,200
	To Share forfeiture A/c			960
	(Being forfeiture of 400 shares alloted to Aar @ Rs. 10 per share (including premium @ Rs. 3 per share) called up for the non-payment of allotment money amounting to Rs. 1,840 and first call @ Rs. 3 per share as per Board resolution dated——. The total amount received from him on 480 shares along with application @ Rs. 2 each is forfeited)			

(c) When it is payable from reserve fund in satisfaction of a call on shares ; and

(d) When bonus shares are issued from reserve fund.

Solution. When a company possesses large reserves as a result of its policy not to distribute whole of its profits, but to accumulate them to enable the company to meet unforeseen contingencies, and such reserves have been accumulated to an amount far in excess of the present or future needs of the company, it would then be deemed desirable to give the benefit of these huge reserves to the existing shareholders by way of compensation for the loss of dividend which they had suffered. This can be done by giving bonus to the shareholders, after passing a resolution for the same in the general meeting of the shareholders.

Bonus to shareholders can be declared out of accumulated profits (revenue or capital), which are generally there in the balance sheet of the company in the shape of profit and loss account (credit balance), reserve fund, share premium account, capital redemption reserve account, or general reserve.

When the bonus to shareholders is declared, the following journal entry is passed in the books of the company.

JOURNAL ENTRY

Date	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
Year				Rs.	Rs.
M.D.	Reserve fund A/c	Dr.			
	Profit & loss A/c	Dr.			
	Share premium A/c	Dr.			
	Capitai redemption reserve A/c	Dr.			
	To Share bonus A/c				
	(Being the bonus declared out of accumulated profits as per the resolution dated——)				

The bonus payable to the shareholders can be satisfied by paying cash, or by making partly paid shares as fully paid up, or by issuing additional shares considered as Bonus Shares.

ACCOUNTING TREATMENT

Sl.	*Transactions*	*Accounts debited*	*Accounts debited*
(a)	Bonus to shareholders is declared from profits and is payable in cash	(i) Profit & loss appropriation	Share bonus
		(ii) Share bonus	Cash/bank
(b)	When it is payable out of reserve fund	(i) Reserve fund	Share bonus
		(ii) Share bonus	Cash/bank

(c) When it is payable from reserve fund in satisfaction of a call on shares	(i) Share call (for making the call due)	Share capital
	(ii) Reserve fund (for declaring bonus out of reserve fund)	Share bonus
	(iii) Share bonus (for utilisation of bonus for payment of call due)	Share call
(d) When bonus shares are issued from reserve fund (This is also called capitalisation of reserves)	(i) Reserve fund (For declaring bonus out of Reserve fund)	Share bonus
	(ii) Share bonus (for utilising bonus to issue bonus shares)	Share capital

A company pays cash bonus when it has accumulated large reserves and sufficient cash to pay bonus.

Bonus shares can be issued only if:

(i) Articles of Association of the company permit the issue of bonus shares.

(ii) There is sufficient balance of unissued shares (*Authorised—issued*).

(iii) Permission of the Controller of Capital Issues regarding issue of Bonus Shares has been obtained, and

(iv) The proposals of the directors regarding issue of bonus shares have been approved by the shareholders in the general meeting

The Balance Sheet of the company should disclose the amount and number of bonus shares. It should also show the source from which the bonus shares have been issued.

If the bonus shares are issued at a premium, the entry for declaring the bonus will be same as already discussed. But on the issue of bonus shares, 'Share bonus account' will be debited with the total amount of the bonus declared. 'Share capital account' will be credited with the face value of the shares issued and 'Share premium account, will be credited with the amount of premium on the total issue.

Problem 2. A limited company has resolved to utilise Rs. 5,00,000 out of its reserve fund in declaration of a bonus to the shareholders. The bonus, however, is to be applied to the extent of Rs 2,00,000 in payment of final call of Rs. 40 per share on 5,000 shares of Rs. 100 each ; and to the extent of Rs. 3,00,000 in the issue of 3,000 fully paid shares of Rs. 100 each to the existing shareholders.

Draft journal entries necessary to give effect to the above resolution.

(I I.B. Part I [illegible])

lution :

JOURNAL ENTRIES

.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Reserve fund A/c	Dr.		5,00,000	
	To Share bonus A/c				5,00,000
	(Being the bonus to shareholders declared out of reserve fund as per Board resolution dated......)				
(2)	Equity share final call A/c	Dr.		2,00,000	
	To Equity share capital A/c				2,00,000
	(Being amount due in respect of final call on 5,000 shares of Rs. 100 each @ Rs. 40 per share as per Board resolution dated——)				
(3)	Share bonus A/c	Dr.		2,00,000	
	To Equity share final call A/c				2,00,000
	(Being the bonus declared applied partly in payment of final call of Rs. 40 per share on 5,000 shares of Rs. 100 each as per Board resolution dated——)				
(4)	Share bonus A/c	Dr.		3,00,000	
	To Equity share capital A/c				3,00,000
	(Being the balance of the declared bonus utilised for issuing 3,000 shares of Rs. 100 each as fully paid to the existing shareholders as per board resolution dated——)				

Problem 3. A company issued 10,000 equity shares of Rs. 10 each, Rs. 8 paid up. A resolution was passed that:

(a) Profit be used in making the partly paid shares as fully paid up.

(b) Further, 1,000 fully paid shares of Rs. 10 each be issued as bonus shares to the existing shareholders by using the following balances appearing in the books:

Share premium account—Rs. 2,000.
Capital redemption reserve—Rs. 4,000.
Balance be used out of Profit and Loss account.
Pass Journal entries.

(I.I.B. Part I, October 1972)

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(a)	Equity share final call A/c Dr.		20,000	
	To Equity share capital A/c			20,000
	(Being amount due in respect of final call of 10,000 equity shares of Rs. 10 each @ Rs. 2 per share as per Board resolution dated——)			
(2)	Share premium A/c Dr.		2,000	
	Capital redemption reserve A/c Dr.		4,000	
	Profit & loss appropriation A/c Dr.		24,000	
	To Share bonus A/c			30,000
	(Being the bonus to shareholders declared out of share premium account, capital redemption reserve account and profit and loss account as per board resolution dated——)			
	Note. The total bonus is to be utilised in making 10,000 partly paid shares as fully paid requiring Rs. 20,000, and further to issue 1,000 fully paid shares of Rs 10 each, requiring Rs. 10,000. Therefore, the total bonus will amount to Rs. 30,000. From the share premium and capital redemption reserve only Rs. 6,000 could be utilised, and the balance of Rs 24,000 has been used out of profit and loss account			

(3)	Share bonus A/c Dr.		20,000	
	To Equity share final call A/c			20,000
	(Being 2/3rd of the bonus declared utilised in payment of final call of Rs. 2 per share on 10,000 equity shares as per Board resolution dated——)			
(4)	Share bonus A/c Dr.		10,000	
	To Equity share capital A/c			10,000
	(Being the balance 1/3rd bonus declared utilised for issuing 1,000 fully paid shares of Rs. 10 each as bonus shares to the existing shareholders as per Board resolution dated——)			

Problem 6. Give journal entries for the following transaction (*including narration*):

Y Ltd. had an issued capital of Rs. 15,00,000 in Rs. 100 equity shares and undistributed profit of Rs. 10,00,000 (of which Rs. 2,25,000 was in the share premium A/c). It was resolved to capitalise the profits amounting to Rs. 3,75,000 (including the share premium) in paying up one equity share for every four equity shares held.

(*I.I.B. Part I, November 1979*)

the Books of Y Ltd.

on:

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
1.	General reserve A/c Dr.		1,50,000	
	Share premium A/c Dr.		2,25,000	
	To Share bonus A/c			3,75,000
	(Being the bonus declared for capitalising the undistributed profits amounting to Rs. 3,75,000 including the amount of Rs. 2,25,000 in the share premium A/c)			

2.	Share bonus A/c	Dr.	3,75,000	
	To Equity share capital A/c			3,75,000
	(Being the issue of one fully paid equity share of Rs. 100 each for every four equity shares held. Total number of bonus shares issued is 3,750 *i.e.*, ¼th of 15,000 shares already issued by the Company @ Rs. 100 each)			

Problem 5. The following items appear in the Balance Sheet of a Limited Company :

	Rs.	Rs.
Share Capital :		
Authorised :		
20,000 Equity shares of Rs. 10 each,		2,00,000
Issued and paid-up :		
10,000 Equity shares of Rs. 10 each Rs. 8 per share paid up		80,000
Reserves and Surplus :		
Share premium	2,000	
Capital redemption reserve account	4,000	
General reserve	40,000	
		46,000

The Company passed the following resolutions :

(*a*) That the general reserve be utilised in making the partly paid shares as fully paid up.

(*b*) That further 1,000 fully paid equity bonus shares of Rs. 10 each be issued to the existing shareholders. For this purpose, general reserve should be utilised to the minimum extent.

You are required to pass the Journal entries to record the above and show the necessary items in the Balance Sheet as would appear after giving effect to the resolution. (*Schedule VI particulars may not be given*).

(*I.I.B. Part I, October 1976*)

Solution:

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit Amount	Credit Amount
			Rs.	Rs.
(1)	Equity share final call A/c Dr.		20,000	
	To Equity share capital A/c			20,000
	(Being amount due in respect of final call of 10,000 shares of Rs. 10 each @ Rs. 2 per share as per Board resolution dated......)			
(2)	General reserve A/c Dr.		20,000	
	To Equity share final call A/c			20,000
	(Being the general reserve utilised in making the 10,000 partly paid equity shares as fully paid up as per Board resolution dated......)			
(3)	Share premium A/c Dr.		2,000	
	Capital redemption reserve A/c Dr.		4,000	
	General reserve A/c Dr.		4,000	
	To Share bonus A/c			10,000
	(Being bonus to shareholders declared out of share premium account, capital redemption reserve account, and general reserve as per Board resolution dated——)			
	Note. As the total bonus is to be used for issuing 1,000 fully paid equity shares of Rs. 10 each, the total amount required is Rs. 10,000. General reserve is to be used to the minimum extent, therefore, the share premium and capital redemption reserve have been exhausted in full, before using general reserve for the purpose.			
(4)	Share bonus A/c Dr.		10,000	
	To Equity share capital A/c			10,000
	(Being the bonus declared utilised for issuing 1,000 fully paid equity shares of Rs. 10 each to the existing shareholders as per Board resolution dated——)			

Extracts of
BALANCE SHEET OF——Co. Ltd
as on——
(Liabilities side only)

Figures for the previous year	*Liabilities & Capital*	*Figures for the current year*
Rs.	**Share Capital**	Rs.
	Authorised:	
2,00,000	20,000 Equity shares of Rs. 10 each	2,00,000
	Issued and Paid up:	
80,000	11,000 Equity shares of Rs. 10 each fully paid up (of the above shares 1,000 shares are allotted as fully paid up by way of bonus shares—out of share premium, capital redemption reserve and general reserve)	1,10,000
	Reserves And Surplus:	
2,000	Share premium	—
4,000	Capital redemption reserve	—
40,000	General reserve	16,000

Problem 6. Fine Chemicals Limited has an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. Its subscribed capital is Rs. 3,20,000 being 4,000 shares of Rs. 100 each, Rs. 80 per share paid up. Out of the General Reserve it decided to:

(*i*) declare a dividend of Rs. 20 per share ;

(*ii*) utilise such dividend for making partly paid up shares as fully paid up ; and

(*iii*) issue 1,000 bonus shares fully paid up in the ratio of 1 bonus share to 4 existing shares.

Pass the journal entries with proper narration in the books of the Company.

(*I.I.B. Part I, November 1973*)

Solution:

JOURNAL ENTRIES

Date	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Equity share final call A/c	Dr.		20,000	
	To Equity share capital A/c				20,000
	(Being amount due in respect of final call of 10,000 shares of Rs. 10 each @ Rs. 2 per share as per Board resolution dated......)				
(2)	General reserve A/c	Dr.		20,000	
	To Equity share final call A/c				20,000
	(Being the general reserve utilised in making the 10,000 partly paid equity shares as fully paid up as per Board resolution dated......)				
(3)	Share premium A/c	Dr.		2,000	
	Capital redemption reserve A/c	Dr.		4,000	
	General reserve A/c	Dr.		4,000	
	To Share bonus A/c				10,000
	(Being bonus to shareholders declared out of share premium account, capital redemption reserve account, and general reserve as per Board resolution dated——)				
	Note. As the total bonus is to be used for issuing 1,000 fully paid equity shares of Rs. 10 each, the total amount required is Rs. 10,000. General reserve is to be used to the minimum extent, therefore, the share premium and capital redemption reserve have been exhausted in full, before using general reserve for the purpose.				
(4)	Share bonus A/c	Dr.		10,000	
	To Equity share capital A/c				10,000
	(Being the bonus declared utilised for issuing 1,' 00 fully pa:d equity shares of Rs. 10 each to the existing shareholders as per Board resolution dated——)				

Extracts of
BALANCE SHEET OF——Co. Ltd
as on———
(Liabilities side only)

Figures for the previous year	*Liabilities & Capital*	*Figures for the current year*
Rs.	**Share Capital**	Rs.
	Authorised:	
2,00,000	20,000 Equity shares of Rs. 10 each	2,00,000
	Issued and Paid up:	
80,000	11,000 Equity shares of Rs. 10 each fully paid up (of the above shares 1,000 shares are allotted as fully paid up by way of bonus shares—out of share premium, capital redemption reserve and general reserve)	1,10,000
	Reserves And Surplus:	
2,000	Share premium	—
4,000	Capital redemption reserve	—
40,000	General reserve	16,000

Problem 6. Fine Chemicals Limited has an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. Its subscribed capital is Rs. 3,20,000 being 4,000 shares of Rs. 100 each, Rs. 80 per share paid up. Out of the General Reserve it decided to:

(*i*) declare a dividend of Rs. 20 per share;

(*ii*) utilise such dividend for making partly paid up shares as fully paid up; and

(*iii*) issue 1,000 bonus shares fully paid up in the ratio of 1 bonus share to 4 existing shares.

Pass the journal entries with proper narration in the books of the Company.

(*I.I.B. Part I, November 1975*)

Solution:

JOURNAL ENTRIES

Date	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	Equity share final call A/c	Dr.		20,000	
	To Equity share capital A/c				20,000
	(Being amount due in respect of final call of 10,000 shares of Rs. 10 each @ Rs. 2 per share as per Board resolution dated......)				
(2)	General reserve A/c	Dr.		20,000	
	To Equity share final call A/c				20,000
	(Being the general reserve utilised in making the 10,000 partly paid equity shares as fully paid up as per Board resolution dated......)				
(3)	Share premium A/c	Dr.		2,000	
	Capital redemption reserve A/c	Dr.		4,000	
	General reserve A/c	Dr.		4,000	
	To Share bonus A/c				10,000
	(Being bonus to shareholders declared out of share premium account, capital redemption reserve account, and general reserve as per Board resolution dated——)				
	Note. As the total bonus is to be used for issuing 1,000 fully paid equity shares of Rs. 10 each, the total amount required is Rs. 10,000. General reserve is to be used to the minimum extent, therefore, the share premium and capital redemption reserve have been exhausted in full, before using general reserve for the purpose.				
(4)	Share bonus A/c	Dr.		10,000	
	To Equity share capital A/c				10,000
	(Being the bonus declared utilised for issuing 1,000 fully paid equity shares of Rs. 10 each to the existing shareholders as per Board resolution dated——)				

Extracts of
BALANCE SHEET OF——Co. Ltd
as on———
(Liabilities side only)

Figures for the previous year	*Liabilities & Capital*	*Figures for the current year*
Rs.	**Share Capital**	Rs.
	Authorised:	
2,00,000	20,000 Equity shares of Rs. 10 each	2,00,000
	Issued and Paid up:	
80,000	11,000 Equity shares of Rs. 10 each fully paid up (of the above shares 1,000 shares are allotted as fully paid up by way of bonus shares—out of share premium, capital redemption reserve and general reserve)	1,10,000
	Reserves And Surplus:	
2,000	Share premium	—
4,000	Capital redemption reserve	—
40,000	General reserve	16,000

Problem 6. Fine Chemicals Limited has an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. Its subscribed capital is Rs. 3,20,000 being 4,000 shares of Rs. 100 each, Rs. 80 per share paid up. Out of the General Reserve it decided to:

(*i*) declare a dividend of Rs. 20 per share ;

(*ii*) utilise such dividend for making partly paid up shares as fully paid up ; and

(*iii*) issue 1,000 bonus shares fully paid up in the ratio of 1 bonus share to 4 existing shares.

Pass the journal entries with proper narration in the books of the Company.

(*I.I.B. Part I, November 1975*)

Solution:

JOURNAL ENTRIES

Sl.	Particulars		L.F.	Debit Amount	Credit Amount
				Rs.	Rs.
(1)	General reserve A/c	Dr.		80,000	
	To Share dividend A/c				80,000
	(Being dividend of Rs. 20 per share declared for the year ended——on a capital of 4,000 shares of Rs. 100 each Rs. 80 per share paid up as per Board resolution dated——)				
(2)	Equity share final call A/c	Dr.		80,000	
	To Equity share capital A/c				80,000
	(Being the final call money due on 4,000 shares at Rs. 20 per share as per the Board resolution dated—)				
(3)	Share dividend A/c	Dr.		80,000	
	To Equity share final call A/c				80,000
	(Being the final call on 4,000 shares @ Rs. 20 per share adjusted against the dividend declared to make the partly paid up shares as fully paid up as per Board resolution dated—)				
(4)	General reserve A/c	Dr.		1,00,000	
	To Share bonus A/c				1,00,000
	(Being the bonus declared out of the general reserve as per the Board resolution dated—)				
(5)	Share bonus A/c	Dr.		1,00,000	
	To Equity share capital A/c				1,00,000
	(Being the issue of one fully paid share of Rs. 100 each for every four shares held in full satisfaction of the bonus payable. Total number of bonus shares issued is 1,000)				

Problem 7. The following particulars have been extracted from the Balance Sheet of A.B.C. Ltd. as on 31st December, 1973:

Capital	
Nominal:	Rs.
5,000 5% Preference shares of Rs. 100 each	5,00,000
10,000 Ordinary shares of Rs. 10 each	1,00,000
	Rs. 6,00,000
Issued:	
2,500 5% Preference shares of Rs. 100 each	2,50,000
5,000 Ordinary shares of Rs. 10 each	50,000
	Rs. 3,00,000
Reserve Fund	2,10,000
Profit and Loss A/c balance	12,000

During the year 1974 the following resolutions were passed:

(1) A resolution converting the Preference shares into Preference shares of Rs. 50 each.

(2) A resolution declaring a bonus of 20% on the Ordinary shares to be provided as to half out of Reserve Fund and the remainder out of the balance of Profit and Loss account.

The bonus to be satisfied by the issue of one fully paid ordinary share for five ordinary shares held.

Give the journal entries which are necessary to carry out the above resolutions, and show how they would affect the balance sheet of the company as at 31st December, 1974. Assume the profit for the year 1974 amounted to Rs. 40,000.

(*I.I.B. Part I, November 1974*)

Solution:

Resolution No. 1

For converting the Preference shares of Rs. 100 each into Preference shares of Rs. 50 each, no journal entry will be passed in the books of accounts of the company. A note will only be made in the Balance Sheet under Share capital account that each Rs. 100 5% Preference share has been converted into two Rs. 50 5% Preference shares. The face value of the shares will be halved and the number of shares will be doubled. The total amount of the shar[illegible] remain the same.

Resolution No. 2

JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Reserve fund A/c	Dr.		5,000	
	Profit & loss A/c	Dr.		5,000	
	To Share bonus A/c				10,000
	(Being the bonus to shareholders declared @ 20% on the 5,000 Equity shares of Rs. 10 each fully paid, *i.e.*, Rs. 10,000. This amount is provided half out of Reserve fund and the remainder half out of Profit and loss balance as per resolution No. 2 dated ———)				
(2)	Share bonus A/c	Dr.		10,000	
	To Equity share capital A/c				10,000
	(Being the declared bonus utilised to issue 1,000 fully paid shares of Rs. 10 each as bonus shares to the existing shareholders in the ratio of one bonus share for every five equity shares held)				

BALANCE SHEET OF A.B.C. Ltd.
as at 31st December, 1974
(Liabilities side only)

Figures for the previous year	*Liabilities & Capital*	*Figures for the current year*
Rs.		Rs.
	Share Capital:	
	Nominal:	
5,00,000	10,000 5% Prereference shares of Rs. 50 each (Each Rs. 100 share has been converted into two shares of Rs. 50 each)	5,00,000
1,00,000	10,0C0 Equity shares of Rs. 10 each	1,00,000
6,00.000		6,00,000

	Issued:		
2,50,000	5,000 5% Preference shares of Rs. 50 each (Each Rs. 100 share has been converted into two shares of Rs. 50 each)		2,50,000
50,000	6,000 Equity shares of Rs. 10 each (of the above shares 1,000 shares are allotted as fully paid up by way of bonus shares half out of Reserve fund and half from Profit and loss account balance)		60,000
3,00,000			3,10,000
	Reserves and Surplus:	Rs.	
2,10,000	Reserve fund:	2,10,000	
	Less: Transfer to share bonus A/c	5,000	2,05,000
12,000	Profit & loss A/c:	12,000	
	Less: Transfer to share bonus A/c	5,000	
		7,000	
	Add: Profit for the year 1974	40,000	47,000

Problem 8. On 30th April 1977, the summarised Balance Sheet of Corrucraft Ltd. showed the following position:

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		Rs.
Share Capital:		**Fixed Assets;**	10,00,000
Authorised: 1,000 Equity shares of Rs. 10 each	10,00,000	**Current Assets, Loans and Advances**	6,14,000
Issued and paid up: 60,000 Equity shares of Rs. 10 each, Rs. 9 per share called up	5,40,000		
General reserve	3,60,000		
Profit & loss A/c	1,54,000		
Creditors	5,00,000		
Proposed dividend	60,000		
	16,14,000		

All the Company's annual general meeting, it was decided to:

(*i*) Pay dividend @ Re. 1 per share as proposed by directors.

(*ii*) Declare a bonus of Rs. 5 per share, to be utilised partly for making the partly paid shares fully paid and then to issue four fully paid bonus shares for every ten shares held.

(*iii*) Pay Rs. 30,000 to the Company's staff as Silver Jubilee Bonus.

You are required to record these transactions in the Journal of the Company and to prepare its Balance Sheet immediately thereafter.

(*I.I.B. Part I, August 1978*)

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
				Rs.	Rs.
(1)	Proposed dividend A/c	Dr.		60,000	
	To Share dividend A/c				60,000
	(Being dividend @ Re. 1 per share declared for the year ended 30th April 1977 on a capital of 60,000 equity shares of Rs. 10 each. Rs. 9 per share paid up as per the Resolution in the annual general meeting dated——)				
(2)	Share dividend A/c	Dr.		60,000	
	To Bank A/c				60,000
	(Being share dividend paid)				
(3)	General reserve A/c	Dr.		3,30,000	
	To Share bonus A/c				3,00,000
	To Bonus to staff A/c				30,000
	(Being the bonus declared out of General Reserve to pay Rs. 30,000 to the Company's staff as Silver Jubilee Bonus along with a bonus of Rs. 5 per share on 60,000 shares as per resolution dated——)				
(4)	Bonus to staff A/c	Dr.		30,000	
	To Bank A/c				30,000
	(Being Silver Jubilee Bonus paid to the Company's staff)				

(5)	Equity share final call A/c Dr. To Equity share capital A/c (Being amount due in respect of 60,000 equity shares for the final call @ Re. 1 per share as per board resolution dated——)	60,000	60,000
(6)	Share bonus A/c Dr. To Equity share final call A/c (Being part of the bonus applied in payment of the final call of 60,000 shares @ Re. 1 per share to make the partly paid shares as fully paid up as per resolution dated——)	60,000	60,000
(7)	Share bonus A/c Dr. To Equity share capital A/c (Being part of the declared bonus utilised to issue 24,000 fully paid shares of Rs 10 each as bonus shares to the existing share-holders in the ratio of 10 : 4 to the holders of 60,000 shares)	2,40,000	2,40,000

BALANCE SHEET OF CORRUCRAFT LTD.
as at 30th April, 1977

Liabilities & Capital	*Amount*	*Assets & Properties*	*Amount*
	Rs.		Rs.
Share Capital:		**Fixed Assets:**	10,00,000
Authorised:		**Investments:**	—
1,00,000 Equity shares of Rs. 10 each	10,00,000	**Current Assets, Loans and Advances:**	*5,24,000
Issued and paid up:		**Miscellaneous Expenditure:**	—
84,000 Equity shares of Rs. 10 each fully paid up (of the above shares 24,000 shares are allotted as fully paid up by way of bonus shares—out of general reserve)	8,40,000		
Reserves and Surplus:			
General Reserve	30,000		
Profit & Loss A/c	1,54,000		
Total c/fd	10,24,000	Total c/fd	15,24,000

Total b/fd	10,24,000	Total b/fd	15,24,000
Secured Loans:	—		
Unsecured Loans:	—		
Current Liabilities and Provisions:			
(A) *Current Liabilities*:			
Creditors	5,00,000		
(B) *Provisions*:			
Proposed dividend	—		
	15,24,000		15,24,000

*Out of the total amount of Current Assets, Loans and Advances amounting to Rs. 6,14,000 including Cash and Bank Balances, a sum of Rs. 90,000 has been paid in cash—Rs. 60,000 as dividend @ Re. 1 per share to the holders of 60,000 shares, and Rs. 30,000 as Silver Jubilee Bonus to the Company's staff, Rs. 6,14,000—90,000=5,24,000.

E

COMPANY ACCOUNTS—ISSUE AND REDEMPTION OF DEBENTURES

Problem 1. How would the following be dealt with in accounts ?

(*a*) Issue of debentures,

(*b*) Debentures issued at par and repayable at par,

(*c*) Debentures issued at a premium and repayable at par,

(*d*) Debentures issued at a discount and repayable at par,

(*e*) Debentures issued at par and repayable at a premium,

(*f*) Debentures issued at a discount and repayable at a premium.

Solution. In addition to raising capital by the issue of shares, a company may borrow money by issue of Debentures, which are documents acknowledging the amount borrowed and containing provisions for the repayment of the principal, the payment of interest, etc. *i.e.*, the procedure for their redemption.

Debentures may be issued at par, at a discount or at a premium, and are issued in the same way as shares.

ACCOUNTING TREATMENT FOR ISSUE AND REDEMPTION OF DEBENTURES

Sl.	*Transactions*	*Account Debited*	*Account Credited*
(A)	**For Issue of Debentures :**		
(1)	On receipt of application money	Bank	Debenture application

(2) On allotment for transferring the application money to Debentures account	Debenture application	Debentures
(3) For amount due on allotment	Debenture allotment	Debentures
(4) For receiving allotment money	Bank	Debenture allotment
(5) For calls due	Debenture —call	Debentures
(6) For receiving calls money	Bank	Debenture —call.

(B) For Issue of Debentures at Par and Repayable at Par :

(1) On issue of Debentures at per	Bank	Debentures
(2) On redemption of Debentures at par	Debentures	Bank

(C) For Issue of Debentures at Premium and Repayable at Par

(1) On issue of Debentures at premium	Bank	Debentures Premium on debentures
(2) On redemption of Debentures at par	Debentures	Bank

(D) For Issue of Debentures at a Discount and Repayable at Pa

(1) On *issue of Debenture* at a discount	Bank Discount on issue of debentures	Debentures
(2) On redemption at par	Debentures	Bank

(E) For Issue of Debentures at Par and Repayable at a Premium

(1) On issue of Debentures at par	Bank Loss on *redemption* of debentures	Debentures Premium on *redemption* of debentures
(2) On redemption of debentures	Debentures Premium on redemption of debentures	Bank

(F) For Issue of Debentures at a Discount and Repayable at a Premium :

(1)	On issue of Debentures at a discount	Bank Discount on issue of debentures Loss on redemption of debentures	Debentures Premium on redemption of debentures
(2)	On redemption of debentures at a premium	Debentures Premium on redemption of debentures	Bank

Notes :

'Debentures' are shown in the Balance Sheet on the Liabilities side under the head "Secured Loans".

'Discouut on issue of Debentures' appears on the Assets side of the Balance Sheet under the head "Miscellaneous Expenditure".

'Premium on Debentures' is shown in the Balance Sheet on the Liabilities side under the head "Reserves and Surplus".

'Loss on Redemption of Debentures' is a capital loss and is shown on the Assets side of the Balance Sheet untill written off.

'Premium on redemption of debentures' will appear as a liability so far as the debentures are not redeemed.

Problem 2. Write a short note on 'Debentures Issued as Collateral Security Against Loan'.

Or

Explain briefly from a Bank's view point—'Collateral Security'.

(*I.I.B. Part I, November 1973*)

Or

Give a short note on 'Collateral Security',

(*I.I.B. Part I, May 1969*)

Solution:

Sometimes Debentures are issued as security in addition to any other security against loan or bank overdraft. Such an issue of debentures is known as issue of debentures as collateral security.

The theme behind such an issue is that if the company does not repay the loan and the interest and the main security is not sufficient, the bank will be entitled to sell these debentures in the market and can recover its loan. If the company repays the loan, the bank will return the debentures issued as collateral security.

Thus, the debentures become alive only when loan is not repaid.

As the debentures are issued only as a collateral security, no entry is passed in the books of the company on their issue. The fact of such an issue of debentures is, however, clearly stated in the Balance Sheet as a way of note under the 'Loan' as well as under the 'Debentures', as shown below :

BALANCE SHEET OF————
as on————

Liabilities & Capital	*Amount*	*Properties & Assets*	*Amount*
	Rs.		Rs.
Share Capital :		**Fixed Assets :**	
Reserves and Surplus :		**Investments :**	
Secured Loans : *Debentures*		**Current Assets, Loans and Advances :**	
————Debentures issued @ Rs.————each paid up (In addition,—— ——debentures of Rs.—— each have been issued as collateral security)		(A) *Current Assets* : (B) *Loans and Advances* :	
Loans and Advances from Banks (Secured by the issue of———— debentures of Rs———each as collateral security)		**Miscellaneous Expenditure :**	
Unsecured Loans :			
Current Liabilities and Provisions :			
(A) *Current Liabilities* :			
(B) *Provisions* :			

Problem 3. Explain the method of Sinking Fund policy for redemption of Debentures and the entries in connection therewith.

Solution. When a company borrows money by issue of debentures which are redeemable at the end of a specified period, it is advisable to provide for their redemption by setting aside annually from out of profits a certain sum, and invest the same in outside securities. Otherwise it would be very difficult for the company to pay lump-sum at the time when the redemption is due.

The provision for redemption of debentures is usually made by creating a *Sinking Fund*. Under this method, a certain fixed sum is set aside out of profits every year and a corresponding amount is invested in gilt-edged securities, which when accumulated with compound interest will be equal to the amount required to redeem the debentures on their due date. The amount to be set aside every year is found by reference to the Sinking Fund Tables. (*Specimen of a Sinking Fund Table is given on page 2·63*).

ACCOUNTING TREATMENT

At the end of period	*Sl.*	*Transactions*	*Account Debited*	*Account Credited*
First year	1.	For setting aside the required sum out of profits for the year	Profit and loss appropriation	Sinking fund
	2.	For investing the corresponding sum in gilt-edged securities	Sinking fund investments	Bank
Second year and subsequent years	1.	For receiving the periodical interest on the said investments	Bank	Interest on sinking fund investments
	2.	For transferring the interest to sinking fund account	Interest on sinking fund investments	Sinking fund
	3.	For setting aside the required sum out of profits for the year	Profit & loss appropriation	Sinking fund
	4.	For investing the annual amount along with the amount received in respect of interest on gilt-edged securities	Sinking fund investments	Bank
Last year	1.	For receiving the periodical interest on the said investments	Bank	Interest on sinking fund investments
	2.	For transferring the interest to sinking fund account	Interest on sinking fund investments	Sinking fund
	3.	For setting aside the required sum out of profits for the year	Profit & loss appropriation	Sinking fund
	4.	For the sale of specific investments	Bank	Sinking fund investments
	5.	For making payment to the debenture-holders to redeem the debentures	Debentures	Bank
	6.	(*a*) If there is profit on the sale of the investments	Sinking fund investments	Sinking fund

(b) If there is loss on the sale of the investments	Sinking fund	Sinking fund investments
7. For closing the sinking fund account, *i.e.*, when its balance is transferred to the general reserve account	Sinking fund	General reserve

Problem 4. *A private limited company, being in need of further capital, issued debentures to the amount of Rs. 2,00,000. One of the directors took up Rs. 50,000 at a premium of Rs. 5 per cent. A friend of his subscribed for Rs. 50,000 at a premium of Rs. 3 per cent. while Rs. 1,00,000 were issued to the company's bankers by way of collateral security for a loan of Rs. 60,000.*

Show how these transactions would appear in the Company's Balance Sheet and pass journal entries to record the same.

(I.I.B. Part I, October 1968)

Solution:

JOURNAL ENTRY IN THE BOOKS OF THE COMPANY

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(1)	Bank A/c Dr.		1,04,000	
	To Debentures A/c			1,00,000
	To Premium on debentures A/c			4,000
	(Being issue of Rs. 50,000 debentures at a premium of Rs. 5 per cent, *i.e.* Rs. 2,500, and of Rs. 50,000 debentures at a premium of Rs. 3 per cent, *i.e.* Rs. 1,500)			

Note. When debentures are issued as security in addition to any other security against a loan or bank overdraft such an issue of debentures is known as issue of debentures as *collateral security.* When the company repays the loan, the bank will return the debentures issued as collateral security.

No entry need be passed in the books of the company for issuing debentures as collateral security, because the debentures are not really alive. Debentures become alive only when loan is not repaid.

The fact of such an issue of debentures must be clearly stated in the balance sheet underneath the loan which is thus covered, as shown below:

BALANCE SHEET OF——CO. PVT. LTD.
as at——————

Liabilities	*Figures for the current year*	*Assets*	*Figures for the current year*
	Rs.		Rs.
Share Capital:		**Fixed Assets:**	—
Reserves and Surplus:		**Investments:**	—
Premium on debentures	4,000	**Current Asssets**	
Secured Loans:		**Loans and Advances:**	
Debentures: (In addition, debentures of Rs. 1,00,000 have been issued as collateral security)	1,00,000	(A) *Current assets:* Cash at bank	1,64,000
Loans and advances from banks (Secured by the issue of Rs. 1,00,000 debentures as collateral security)	60,000	(B) *Loans and advances:*	
		Miscellaneous Expnediture:	—
Unsecured Loans:			
Current Liabilities and Provisions:			
	1,64,000		1,64,000

Note. When the loan against which the debentures are issued as collateral security was raised, following journal entry would have been passed in the books of the company;

JOURNAL ENTRY

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
	Bank A/c Dr.		60,000	
	To Lans & advances from banks			60,000
	(Being loan raised from bank secured by the issue of Rs. 1,00,000 debentures as collateral security)			

Problem 5. On July 1, 1974 A Ltd. gave notice of its intention to redeem its outstanding Rs. 4,00,00,000 4½% Debenture stock on January 1, 1975 at 102 per cent and offered the holders the following options;

(1) To apply the redemption money to subscribe for—

(a) 6% Cum. Pref. shares of Rs. 20 each at Rs. 22·50 per share—accepted by the holders of Rs. 1,71,00,000 stock; or

(b) 6% Debenture stock at Rs. 96 per cent—accepted by the holders of Rs. 1,44,00,000 stock ; or

(2) To have their holdings redeemed for cash, if neither of the options under (1) was accepted.

You are required to show the journal entries necessary to record the redemptions and allotments under (1) (a) and (b) and to state the amount of cash required to satisfy the option (2)

(I.I B. Part I, May 1975)

Or

A company gave notice of its intention to redeem its outstanding Rs. 4,00,00,000 6% Debenture stock at Rs. 102 per cent, and offered the holders the following options:

To apply the redemption monies to subscribe for—

(a) 5 per cent Cum. Pref. shares of Rs. 20 each at Rs. 22·50 per share.

(b) 6 per cent Debenture Stock at 96 per cent.

or (c) to have their holdings redeemed for cash.

Holders of Rs. 1,71,00,000 stock accepted the proposal (a).

Holders of Rs. 1,44,00,000 stock accepted the proposal (b).

And the remaining stock holders accepted the proposal (c).

Pass journal entries to record the above transactions.

(I.I.B. Part I, October 1971)

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(1)	6% Debenture A/c Dr.		4,00,00,000	
	Premium on redemption of debentures A/c Dr.		8,00,000	
	To 6% Debenture holders A/cs			4,08,00,000
	(Being amount due for redemption of debenture stock transferred to debenture holders at Rs. 102 per cent on the value of Rs. 4,00,00,000)			

Working:

Amount redeemed

$$=\frac{\text{Rs. } 4{,}00{,}00{,}000\times 102}{100}$$

$=$Rs. 4,08,00,000

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(2)	6% Debenture holder's A/cs Dr.	1,74,42,000	
	To 5% Cumulative preference share capital A/c		1,55,04,000
	To Share premium A/c		19,38,000
	(Being redemption of Rs. 1,71,00,000 6% debenture stock at Rs. 102 per cent by the issue of 7,75,200 5% cumulative preference shares of Rs. 20 each at a premium of Rs. 2·50 per share)		

Workings:

(*a*) Amount redeemed

$$=\frac{\text{Rs. } 1{,}71{,}00{,}000\times 102}{100}$$

$=$Rs. 1,74,42,000

(*b*) Number of preference shares issued

$$=\frac{\text{Rs. } 1{,}74{,}42{,}000}{\text{Rs. } 22{\cdot}50}$$

$=$7,75,200 shares

(*c*) Amount transferred to share capital

$=$7,75,200 shares $\times$ Rs. 20 per share
$=$Rs. 1,55,04,000

(*d*) Amount transferred to share premium A/c

$=$7,75,200 shares $\times$ Rs. 2·50 per share
$=$Rs. 19,38,000

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(3)	6% Debenture holders A/cs Dr.	1,46,88,000	
	Discount on issue of IInd 6% debentures A/c Dr.	6,12,000	
	To IInd 6% debentures A/c		1,53,00,000
	(Being redemption of Rs. 1,44,00,000 6% Debenture stock at Rs. 102 per cent by issue of 1,53,000 IInd 6% debentures of Rs. 100 each at a discount of Rs. 4 per debenture)		

Workings:

(a) Amount redeemed

$= \text{Rs. } \frac{1,44,00,000 \times 102}{100}$

$= \text{Rs. } 1,46,88,000$

(b) Number of IInd 6% debentures issued

$= \frac{\text{Rs. } 1,46,88,000}{96}$

$= 1,53,000$

(c) Face value of IInd 6% debentures

$= \text{Rs. } 1,53,000 \times 100$

$= \text{Rs. } 1,53,00,000$

(d) Discount on issue of IInd 6% debentures

$= \frac{\text{Rs. } 1,53,00,000 \times 4}{100}$

$= 6,12,000$

(4)	6% Debenture holders A/cs Dr.	86,70,000	
	To Bank A/c		86,70,000
	(Being redemption of the balance Rs 85,00,000 6% debenture stock at Rs. 102 per cent by payment in cash)		

Workings :

(a) Balance stock of 6% debentures

$= \text{Rs. } 4,00,00,000 - \text{Rs. } 1,71,00,000 - \text{Rs. } 1,44,00,000$

$= \text{Rs. } 85,00,000$

(b) Amount redeemed

$\frac{\text{Rs. } 85,00,000 \times 102}{100}$

$= 86,70,000$

Problem 6. On 1st January 1969, a limited company issued 200 debentures of Rs. 100 each at a discount of 5 per cent.

The debentures were repayable at par on 31st December 1978, and in accordance with the terms of issue an accumulating sinking fund was created by setting aside out of profits of an equal sum at 31st December in each year, the same being invested at compound interest immediately.

Taking the annual amount thus set aside to be Rs. 1,590 and the rate of interest received on investment 5 per cent per annum :

(*a*) Set out the Sinking Fund account and the Investment account as they would appear in the company's books for the five years ended 31st December 1973, and show how the particulars as to the debentures and relative accounts will appear on the company's Balance Sheet on that date.

(*b*) Explain how the various accounts will be adjusted assuming that the repayment of the debentures takes place on the due date. *Ignore income tax.*

(*I I.B. Part I, May 1974*)

Solution:

(*a*) DEBENTURES SINKING FUND ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1969			Rs. P.	1969			Rs. P.
Dec. 31	To Balance c/d		1,590·00	Dec. 31	By P & L appropriation A/c		1,590·00
			1,590·00				1,590·00
1970				1970			
Dec. 31	To Balance c/d		3,259·50	Jan. 1	By Balance b/d		1,590 00
				Dec. 31	By Interest on sinking fund investment A/c @ 5% on Rs. 1,590·00		79·50
				Dec. 31	By P & L appropition A/c		1,590·00
			3,259·50				3,259·50
1971				1971			
Dec. 31	To Balance c/d		5,012·47	Jan. 1	By Balance b/d		3,259·50
				Dec. 31	By Interest on sinking fund investment A/c @ 5% on Rs. 3,259·50		162·97
				Dec. 31	By F & L appropriation A/c		1,590·00
			5,012·47				5,012·47

1972			1972		
Dec. 31	To Balance c/d	6,853·09	Jan. 1	By Balance b/d	5,012·47
			Dec. 31	By Interest on sinking fund investment A/c. @ 5% on Rs. 5,012·47	250·62
			Dec. 31	By P & L appropriation A/c	1,590·00
		6,853·09			6,853·09
1973			1973		
Dec. 31	To Balance c/d	8,785·74	Jan. 1	By Balance b/d	6,853·09
			Dec. 31	By Interest on sinking fund investment A/c, @ 5% on Rs. 6,853·09	342·65
			Dec. 31	By P & L appropriation A/c	1,590·00
		8,785·74			8,785·74

DEBENTURES 5% SINKING FUND INVESTMENT ACCOUNT

Dr.					*Cr.*
1969			1969		
Dec. 31	To Bank A/c (Annual amount Rs. 1,590·00)	1,590·00	Dec. 31	By Balance b/d	1,590·00
		1,590·00			1,590·00
1970			1970		
Jan. 1	To Balance b/d	1,590·00	Dec. 31	By Balance c/d	3,259·50
Dec. 31	To Bank A/c (Annual amount Rs. 1,590·00 + interest Rs. 79·50)	1,669·50			
		3,259·50			3,259·50

1	To Balance b/d	3,259·50	1971 Dec. 31	By Balance c/d	5,012 47
31	To Bank A/c (Annual amount Rs. 1,590·00 + interest Rs. 162·97)	1,752·97			
		5,012·47			5,012·47
1972 Jan. 1	To Balance b/d	5,012·47	1972 Dec. 31	By Balance c/d	6,853·0
Dec. 31	To Bank A/c (Annual amount Rs. 1,590·00 + interest Rs. 250·62)	1,840·62			
		6,853·09			6,853·09
1973 Jan. 1	To Balance b/d	6,853·09	1973 Dec. 31	By Balance c/d	8,785·74
Dec. 31	To Bank A/c (Annual amount Rs. 1,590·00 + interest Rs. 342·65)	1,932·65			
		8,785·74			8,78

Extracts of
BALANCE SHEET OF......Co. Ltd.
as at 31st December, 1973

Figures for the previous year	*Liabilities*	*Figures for the current year*	*Figures for the previous year*	*Assets*	*Figures for the current year*
Rs. P.		Rs. P.	Rs. P.		Rs. P.
	Share Capital :			**Fixed Assets**	
	Authorised :			**Investment :**	
	Issued : *Subscribed* :		6,853·09	5% Sinking fund investment A/c	8,785·74
	Called up : *Paid up* :			**Current Assets Loans And Advances :**	
	Reserves and Surplus :				
6,853·09	Sinking fund A/c	8,785·74		(A) *Current Assets*	19,000
	Secured Loans :			(B) *Loans and advance*	
20,000·00	Debentures (200 @ Rs. 100 each)	20,000·00		**Miscellaneous Expenditure**	
	Unsecured Loans.			Discount on issue of debentures	1,000·00
	Current Liabilities & Provisions :				
	(A) *Current liabilities* :				
	(B) *Provisions* :				

(*b*) At the end of the last year, *i.e.* on 31st December 1978 5% sinking fund investments will be sold, and the sale proceeds will be used to redeem the debentures. The undernoted journal entries will be passed for adjusting the various accounts :

JOURNAL ENTRIES

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1978				
Dec. 31	Bank A/c Dr.			
	To Sinking fund investment A/c			
	(For the amount realised on sale of securities)			

1978			Rs.	Rs.
Dec. 31	Debentures A/c To Bank A/c (For amount paid to debenture holders to redeem the debentures)	Dr.	*20,000	*20,000
Dec. 31	Sinking fund investment A/c To Sinking fund A/c (For profit on sale of investments transferred to Sinking fund A/c) **Note:** Reverse entry will be made if there is loss on sale of investments.	Dr.		
Dec. 31	Sinking fund A/c To General reserve A/c (Balance in the sinking fund account transferred to general reserve)	Dr.		

*The debentures were repayable at par, as per the terms of issue, therefore, the total amount payable to the debenture holders will not exceed the face value of 200 debentures of Rs. 100 each, *i.e.* Rs. 20,000.

F

FINAL ACCOUNTS OF COMPANIES

Problem 1. Is there any difference between Final Accounts of 'Sole Trader' and 'Partnership' and that of a 'Company' ? Explain, if there is any.

Solution. The principles and methods of preparing the final accounts of a joint stock company are the same as in the case of a 'sole trader' or a 'partnership firm.' However, the form and the various details required to be presented in the final accounts of a company are governed by the provisions of *the Indian Companies Act 1956*, as under :

'The Balance Sheet must be in the Form set out in Part I of Schedule VI, or as near thereto as circumstances permit'.

'The Profit and Loss Account must comply with the requirements of Part II of Schedule VI so far as they are applicable'.

PROFIT AND LOSS ACCOUNT

There is no need of separate Trading and Profit and Loss Account —only one account, called Profit and Loss Account, containing all items that go into the Trading and Profit and Loss Account will be sufficient.

Figures relating to the previous year are also to be given.

The balance (profit or loss) on Profit and Loss Account is transferred to Profit and Loss appropriation account and is not added to or deducted from Capital account.

Although, *the Companies Act* has not prescribed any standard form for the preparation of the Profit and Loss account, but every Profit and Loss account of a company is to be prepared in such a form so as to give a true and fair view, of the profit or loss of the company. All material information is to be disclosed, so that whosoever reads the Profit and Loss account, can understand it and is able to form a fair idea of the profit earned or loss suffered by the company during the accounting period and also the factors leading to the profit or the loss.

PROFORMA OF PROFIT AND LOSS ACCOUNT OF——CO. LTD.

for the year ended——

Dr. *Cr.*

Figures relating to previous year	*Particulars*	*Figures for current year*	*Figures relating to previous year*	*Particulars*	*Figures for current year*
Rt.		Rs.	Rs.		Rs.
	To Opening stock			By Sales	
	To Purchases			*Less* : Returns inwards	
	Less : Returns outward			By Closing stock	
	To all manufacturing and purchasing expenses like wages, carriage inward, octroi, fuel and power etc.			By Gross loss c/d (if there is loss)	
	Add : Outstandings				
	Less : Prepaid				
	To Gross profit c/d (if there is profit)				
——		——	——		——
====		====	====		====
	To Gross loss b/d (if there is loss)			By Gross profit b/d (if there is profit)	
	To All administrative, financial, general, selling and distribution expenses			By Income from investments	
	Add : Outstandings			*Add* : Outstandings	
	Less : Prepaid			*Less* : Received in advance	
	To Depreciation on sundry assets			By Interest, discount and other incomes	
		——			——
	Total c/fd			Total c/fd	

			Rs.	Rs.
1978				
Dec. 31	Debentures A/c	Dr.	*20,000	
	To Bank A/c			*20,000
	(For amount paid to debenture holders to redeem the debentures)			
Dec. 31	Sinking fund investment A/c	Dr.		
	To Sinking fund A/c			
	(For profit on sale of investments transferred to Sinking fund A/c) **Note:** Reverse entry will be made if there is loss on sale of investments.			
Dec. 31	Sinking fund A/c	Dr.		
	To General reserve A/c			
	(Balance in the sinking fund account transferred to general reserve)			

*The debentures were repayable at par, as per the terms of issue, therefore, the total amount payable to the debenture holders will not exceed the face value of 200 debentures of Rs. 100 each, *i.e.* Rs. 20,000.

F

FINAL ACCOUNTS OF COMPANIES

Problem 1. Is there any difference between Final Accounts of 'Sole Trader' and 'Partnership' and that of a 'Company' ? Explain, if there is any.

Solution. The principles and methods of preparing the final accounts of a joint stock company are the same as in the case of a 'sole trader' or a 'partnership firm.' However, the form and the various details required to be presented in the final accounts of a company are governed by the provisions of *the Indian Companies Act 1956*, as under :

'The Balance Sheet must be in the Form set out in Part I of Schedule VI, or as near thereto as circumstances permit'.

'The Profit and Loss Account must comply with the requirements of Part II of Schedule VI so far as they are applicable'.

PROFIT AND LOSS ACCOUNT

There is no need of separate Trading and Profit and Loss Account —only one account, called Profit and Loss Account, containing all items that go into the Trading and Profit and Loss Account will be sufficient.

Figures relating to the previous year are also to be given.

The balance (profit or loss) on Profit and Loss Account is transferred to Profit and Loss appropriation account and is not added to or deducted from Capital account.

Although, *the Companies Act* has not prescribed any standard form for the preparation of the Profit and Loss account, but every Profit and Loss account of a company is to be prepared in such a form so as to give a true and fair view, of the profit or loss of the company. All material *information is to be disclosed, so that whosoever reads the Profit and* Loss account, can understand it and is able to form a fair idea of the profit earned or loss suffered by the company during the accounting period and also the factors leading to the profit or the loss.

PROFORMA OF PROFIT AND LOSS ACCOUNT OF————CO. LTD.

for the year ended———

Dr. *Cr.*

Figures relating to previous year	*Particulars*	*Figures for current year*	*Figures relating to previous year*	*Particulars*	*Figures for current year*
Rt.		Rs.	Rs.		Rs.
	To Opening stock To Purchases *Less* : Returns outward To all manufacturing and purchasing expenses like wages, carriage inward, octroi, fuel and power etc. *Add* : Outstandings *Less* : Prepaid To Gross profit c/d (if there is profit)			By Sales *Less* : Returns inwards By Closing stock By Gross loss c/d (if there is loss)	
———		———	———		———
===		===	===		===
	To Gross loss b/d (if there is loss) To All administrative, financial, general, selling and distribution expenses *Add* : Outstandings *Less* : Prepaid To Depreciation on sundry assets			By Gross profit b/d (if there is profit) By Income from investments *Add* : Outstandings *Less* : Received in advance By Interest, discount and other incomes	
		———			
	Total c/fd			Total c/fd	

Particulars	Amount	Particulars	Amount
Total b/fd		Total b/fd	
To loss on sale of Assets		By Transfer fee	
To Provision for : Interest on debentures, bad and doubtful debts, Income-tax, etc.		By Profit on sale of Assets	
To Expenses written off, e.g. Preliminary expenses, Discount on issue of debentures, Cost of issue of debentures or shares, etc.		By Loss transfered to the assets side of the balance sheet (if there is loss)	
To Profit transferred to Profit and Loss appropriation A/c (if there is profit)			
	——		——
	═══		═══

PROFIT AND LOSS APPROPRIATION ACCOUNT

In case of a sole proprietorship or a partnership firm, the balance of Profit and Loss account is directly transferred to the Capital account/s. But in case of a joint stock company, the net profit, as shown by the Profit and Loss account, is transferred to Profit and Loss appropriation account. This account shows how the profits are disposed of.

The balance of the account is then shown as a separate item in the Balance sheet—under the head 'Reserves and Surplus', if there is a credit balance.

PROFORMA OF PROFIT & LOSS APPROPRIATION ACCOUNT OF————CO. LTD.

for the year ended——

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Transfer to reserves		By Last year balance b/d	
To Interim dividend		By Net profit for the year b/d from P & L A/c	
To Proposed dividend		By Amount withdrawn from general reserve, etc.	
To Share bonus		By Provisions, no longer required	
To Balance c/d (to the liabilities side of the balance sheet)			

BALANCE SHEET

The Companies Act lays down the form of the Balance Sheet, the contents of which are reproduced on the next page :

Schedule VI (See Section 211)

Part I—Form of Balance Sheet

BALANCE SHEET OF——(*Here enter the name of the Company*)

as at——(*Here enter the date as at which the balance sheet is made out*)

Figures for the previous year	*Liabilities & Capital*	*Figures for the current year*	*Figures for the previous year*	*Assets & Properties*	*Figures for the current year*
Rs.		Rs.	Rs.		Rs.
	Share Capital *Authorised*——share of Rs.——each *Issued* (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class) —shares of Rs.——each *Subscribed* (distinguishing between the various classes of capital and stating the particulars specified below in respect of each class) —shares of Rs.—each Rs.———per share called up (Of the above shares—shares are allotted as *fully paid up* pursuant to a contract without payments being received in cash)			**Fixed Assets** (*a*) Goodwill, (*b*) Land, (*c*) Buildings, (*d*) Leaseholds, (*e*) Railway sidings, (*f*) Plant and machinery, (*g*) Furniture and fittings, (*h*) Development of property, (*i*) Patents, trade marks and designs, (*j*) Live-stock, and (*k*) Vehicles, etc. [For all assets the original cost, and the additions *thereto* and deductions therefrom during the year and the total depreciation written off or provided up to the end of the year to be stated.]	

(Of the above shares— shares are allotted as fully paid up by way of bonus shares)
Less: Calls unpaid
Add: Forfeited shares
(amount originally paid-up)

Reserves and Surplus

1. Capital reserves
2. Capital redemption reserve
3. Share premium account
4. Other reserves specifying the nature of each reserve and the amount in respect thereof
   Less: Debit balance in profit and loss account (if any)
5. Surplus, *i.e.* balance in profit and loss account after providing for proposed allocations, namely: Dividend, Bonus or Reserves
6. Proposed additions to reserves
7. Sinking funds

Secured Loans

1. Debentures
2. Loans and Advances from Banks
3. Loans and Advances from subsi-

Investments

Showing nature of investments and mode of valuation, for example, cost or market value and distinguishing between—

1. Investments in Government or Trust securities
2. Investments in shares, debentures or bonus
3. Immovable properties

Current Assets, Loans and Advances

(*A*) *Current Assets*:

1. Interest accrued on investments,
2. Stores and spare parts,
3. Loose tools,
4. Stock-in-trade,
5. Work-in-Progress,
6. Sundry Debtors:
   (*a*) Debts outstanding for a period exceeding six months,
   (*b*) Other debts
   Less: Provision

Unsecured Loans

1. *Fixed deposits*
2. Loans and advances from subsidiaries
3. Short term loans and advances:
   (*a*) *From banks*
   (*b*) From others
4. Other loans and advances:
   (*a*) From banks
   (*b*) From others

Current Liabilities and Provisions

A. Current liabilities:

1. Acceptances
2. Sundry creditors
3. Subsidiary companies
4. Advance payments and unexpired discounts
5. Unclaimed dividends
6. Other liabilities, (if any)
7. Interest accrued but not due on loans

B. Provisions:

8. Provisions for taxation
9. Proposed dividends
10. For contingencies
11. For Provident fund scheme
12. For insurance, pension and similar staff benefit schemes

7. Cash balance in hand

Bank balances:
   (*a*) With scheduled banks, and
   (*b*) With others

B. Loans and Advances:

8. Advances and loans to subsidiaries
9. Bills of Exchange
10. Advances recoverable in cash or in kind or for value to be received, *e.g.* rate, taxes, insurance, etc.
11. Balances on current account with managing agents or secretaries and treasurer
12. Balances with customs, port trust, etc. (where payable on demand)

Miscellaneous Expenditures

(To the extent not written off or adjusted)

1. Preliminary expenses
2. Expenses including commission or brokerage on underwriting or subscription of shares or debentures

13. Other provisions

(A foot-note to the balance-sheet may be added to show separately:

1. Claims against the company not acknowledged as debts
2. Uncalled liability on shares, partly paid
3. Arrears of fixed cumulative dividends
4. Estimated amount of contracts remaining to be executed on capital account and not provided for
5. Other money for which the company is contingently liable)

3. Discount allowed ... shares or debentures
4. Interest paid out of capital during construction (also stating the rate of interest)
5. Development expenditure not adjusted
6. Other items (specifying nature)

Profit and Loss Account

Problem 2. Give short note on: Contingent Liabilities.

(*I.I.B. Part I, May 1969*)

Solution. Contingent liabilities are liabilities which have not arisen or have already accured, but may arise out of transactions pending upon the happening of a certain event. Hence, a contingent liability may or may not involve the payment of money.

Examples of contingent liabilities are :

(*a*) Bills discounted but not yet matured, (*b*) Liability for calls on partly paid shares held by the company,

(*c*) Liabilities under a guarantee, (*d*) Liabilities for penalties under contracts,

(*e*) ... of arrears of dividend (*f*) Liabilities under any law-suits pendi...

As the actual liability arises only on the happening of a contingency, it is not usual to make any provisions for such liabilities in the accounts. Only the liabilities that have actually accrued due as on the date of the Balance sheet should necessarily be brought into account.

The Form of Balance sheet as per *Part I Schedule VI under Sec. 211 of the Indian Companies Act, 1956,* requires that Contingent Liabilities should be stated in the shape of a foot-note on the liabilities side of the Balance sheet of the company.

The amount of any guarantees given by the company on behalf of directors or other officers of the company are also required to be shown separately under this head.

Problem 3. Give short notes on: Share Capital; Working Capital.

(I.I.B. Part I, May 1969)

Solution. Share Capital: *Share capital represents the total amount of shares subscribed by the shareholders to serve as capital for the company.*

The Share capital is divided into the following categories:

(a) **Authorised Capital.** This is also known as Nominal or Registered capital of the company and represents the total amount of the capital for which the company is authorised to issue shares as per the Memorandum of association of the company.

(b) **Issued Capital.** It is the *amount of shares that have been offered to the public for subscription for cash and/or to the vendors as fully or partly paid shares.*

(c) **Subscribed Capital.** This represents that part of the issued capital which is subscribed *(applied for)* by the public and the vendors.

(d) **Called up Capital.** It is that amount of the subscribed capital which represents the amount of money called-up on the shares actually subscribed.

(e) **Paid up Capital.** It is that portion of the called up capital which has actually been paid up by the shareholders as also to the extent to the shares have been issued as paid up.

Working Capital: *This term is used* to denote the balances of paid up capital of the company left for working the business after paying for its fixed assets.

(Working capital = Paid-up capital − Fixed assets).

This term is also applied to the amount by which the 'liquid' or 'current' assets, *i.e.* readily realisable assets of any concern, exceed its current liabilities.

(Working capital = Current or Liquid assets − Current liabilities).

Problem 4. What is the difference between Reserve Capital and Capital Reserve.

(I I.B. Part I, October 1972)

Solution. Reserve Capital. A company may by special resolution determine that any portion of its subscribed capital which has

not been called up, shall not be called up, except in the event of and for the purpose of winding up. Such portion of the share capital is known as Reserve Capital. This part of the Share capital cannot be called up during the life time of the company.

Capital Reserve. Capital Reserve is a reserve which has been accumulated out of capital profits and surpluses and is not available for distribution as dividend amongst the share holders. Share Premium and Capital Redemption Reserve Account should not be credited to Capital Reserve; as these accounts are to be kept separate. Only profit or a surplus of capital nature can be credited to such a reserve.

Following are the examples of profits or surpluses which can be credited to capital reserve:

1. Profit on re-issue of forfeited shares.

2. On purchase of a business by the company, if the price paid for acquiring net assets (Assets taken over—liabilities taken over) is less than their value, *i.e.* when the value of net assets acquired is more than the price paid for them, the difference is transferred to Capital Reserve account.

3. Profits prior to incorporation of the company.

4. Premium received on issue of debentures, or profit on redemption of debentures where the distribution of such profits is not permitted by the Articles of association of the company.

5. Capital profits on sale of fixed assets, when these are not availble for distribution as dividend by the Articles of association of the company, or where the profits have not been realised, or where the profit is realised but is likely to be wiped out by the deficiency on revaluation of other assets.

Problem 5. From the following Trial Balance and particulars given prepare Trading, Profit and Loss account and Balance sheet as on 31st December, 1966 of X. Y. Private Ltd.

	Rs.	Rs.
Stock 31st December, 1965	7,500	
Sales		35,000
Purchases	24,500	
Wages	5,000	
Discount	700	500
Salaries	750	
Rent	495	
General expenses	1,705	
Insurance	275	
Profit & Loss A/c—31st December, 1965		1,500
Dividend paid—March, 1966	500	
Interim dividend paid—July, 1966	400	
Capital—1,000 shares of Rs. 10 each		10,000
Debtors and Creditors	3,750	1,750
Plant and machinery	2,900	
Cash and Bank balances	1,345	
Total c/fd	49,820	48,750

Total b/fd	49,820	48,750
Reserve		1,550
Loan to Managing Director	330	
Bad debt	150	
	50,300	50,300

(1) Closing stock Rs. 8,200.
(2) Depreciate machinery by 10%.
(3) Provide 5% for discount on debtors and 5% on creditors.
(4) Provide 10% on net profit for commission to Managing Director.
(5) Rent outstanding Rs. 60.
(6) Unexpired insurance Rs. 25.
Omit paisa. *(I.I.B. Part I, May 1967)*

Solution:

X.Y. Private LTD.
TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st December, 1966

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Opening stock		7,500	By Sales		35,000
To Purchases		24,500	By Closing stock		8,200
To Wages		5,000			
To Gross profit c/d		6,200			
		43,200			43,200
To Discount (allowed)		700	By Gross Profit b/d		6,200
To Provision for discount on debtors (@ 5% on Rs. 3,750)		187	By Discount (earned)		500
To Salaries		750	By Provision for discount on creditors (5% on Rs. 1,750)		87
To Rent	495				
Add: Outstanding	60	555			
To General Expenses		1,705			
To Insurance	275				
Less: Unexpired	25	250			
To Bad debts		150			
To Depreciation: On machinery (@ 10% on Rs. 2,900)		290			
To Net profit c/d		2,200			
		6,787			6,787

X.Y. Private Ltd.
PROFIT & LOSS APPROPRIATION ACCOUNT
for the year ended 31st December, 1966

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Dividend paid	500	By Balance b/d		
To Interim dividend paid	400	Upto 31-12-1965	1,500	
To Commission to Managing Director 10% of net profit of Rs. 2,200)	220	For the current year	2,200	3,700
To Balance c/d	2,580			
	3,700			3,700

X.Y. Private Ltd.
BALANCE SHEET
as on 31st December, 1966

Liabilities & Capital	*Details*	*Amount*	*Properties & Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Share Capital			**Fixed Assets:**		
Authorised: 1,000 shares of Rs. 10 each		10,000	(*a*) Plant & Machinery	2,900	
			Less: Depreciation @ 10%	290	2,610
Issued, Subscribed, Called and Paid up: 1,000 shares of Rs. 10 each		10,000	**Investments:**		
			Current Assets, Loans and Advances:		
Rsserves and Surplus:			(A) *Current Assets*		
			Stock-in-trade		8,200
Reserve		1,550	Debtors	3,750	
Profit & Loss		2,580	*Less*: 5% Provision for discount on debtors	187	3,563
Secured Loans:					
Unsecured Loans:					
Current Liabilities and Provisions:			Cash and Bank balances		1,345
Total c/d		14,130	Total c/d		15,718

Liabilities	Rs.	Rs.	Assets	Rs.
Total b/d		14,130	Total b/d	15,718
(A) *Current Liabilities:*			(B) *Loans and Advances:*	
Sundry creditors	1,750		Unexpired insurance	25
Less : Provision @ 5% for discount on creditors	87	1,663	Loan to Managing Director	330
Outstandinge xpenses:			**Miscellaneous Expenditure**	
for Rent	60			
for Commission to Managing Director	220	280		
(B) *Provisions*		—		
		16,073		16,073

Problem 6. ABC Ltd., a company with an authorised capital of Rs. 2,00,000 in shares of Rs. 10 each closes its books of accounts on 31st December, 1968.

[illegible] ng and Profit and loss acco[illegible] Balance sheet as at that [illegible] adjustments:

	Rs.	Rs.
Share capital account		1,15,000
Debtors	60,000	
Rent received		5,000
Rent paid	6,000	
Balance at bank	30,000	
Purchases and Returns	2,95,000	2,000
Sales and Returns	9,000	3,55,000
Stock—1st January	35,000	
Bad debts written off	4,000	
Bad debts provision		5,000
Cash in hand	1,000	
Rates and taxes	2,500	
Salaries	33,000	
Profit and loss account—1st January		50,000
Fixtures and fittings	15,000	
Creditors		20,000
Discount	1,200	2,000
Advertisement	4,000	
Interim dividend	7,000	
Sundry expenses	2,500	
Printing and stationery	3,800	
Goodwill	45,000	
	5,54,000	5,54,000

The required adjustments are:
(1) The stock at 31st December 1968 was valued at Rs. 45,000.
(2) Depreciate furniture by 10%.
(3) Provide Rs. 5,000 for General Reserve.
(4) Rates and taxes include Rs. 400 for the following year.
(5) Rent payable Rs. 500 for balance of rent for the year ended 31st December 1968 is to be provided.
(6) Advertisement account includes Rs. 2,000 for amount paid in advance. *(I.I.B. Part I, November 1969)*

Solution:

A B C LTD.
TRADING AND PROFIT AND LOSS ACCOUNT
for the year ended 31st December, 1968

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
To Stock—(1st January)		35,000	By Sales	3,55,000	
To Purchases	2,95,000		*Less*: Returns	9,000	3,46,000
Less: Returns	2,000	2,93,000			
To Gross Profit c/d — (*Balancing figure*)		63,000	By Stock— (31st December)		45,000
		3,91,000			3,91,000
To Rent:			By Gross Profit b/d		63,000
Paid	6,000		By Discount:		
Less: Received	5,000		Earned	2,000	
	1,000		*Less*: Allowed	1,200	800
Add: Outstanding	500	1,500			
To Bad debts written off		4,000			
To Rates & Taxes	2,500				
Less: Pre-paid for the following year	400	2,100			
To Salaries		33,000			
To Advertisement:					
Paid	4,000				
Less: Paid in adv.	2,000	2,000			
To Sundry expenses		2,500			
To Printing & stationery		3,800			
To Depreciation: On Furniture (@ 10% on Rs. 15,000)		1,500			
To Net Profit c/d		13,400			
		63,800			63,800

A B C Ltd.
PROFIT & LOSS APPROPRIATION ACCOUNT
for the year ended 31st December, 1968

Dr. Cr.

Particulars	Amount	Particulars	Details	Amount
	Rs.		Rs.	Rs.
To General Reserve (amount transferred)	5,000	By Balance b/d: As on 1st Jan.	50,000	
To Interim Dividend (paid)	7,000	*Add*: Profit for the year	13,400	63,400
To Balance c/d	51,400			
	63,400			63,400

BALANCE SHEET OF A B C LTD.
as at 31st December, 1968

Liabilities & Capital	*Amount*	*Properties & Assets*	*Details*	*Amount*
Share Capital:	Rs.	**Fixed Assets:**	Rs.	Rs.
Authorised:		(*a*) Goodwill		45,000
20,000 Equity shares of Rs. 10 each	2,00,000	(*b*) Fixtures & Fittings	15,000	
Issued, Subscribed, Called and Paid up:		*Less*: Depreciation @ 10% for the year	1,500	13,500
11,500 Equity shares of Rs. 10 each fully paid up	1,15,000			
Reserves and Surplus:		**Investments:**	—	
General Reserve	5,000	**Current Assets, Loans and Advances:**		
Profit and loss A/c	51,400	(A) *Current Assets*:		
Secured Loans:	—	Stock on hand		45,000
Unsecured Loans:	—	Debtors	60,000	
Current Liabilities and Provisions:		*Less*: Bad debts provisions	5,000	55,000
(A) *Current Liabilities*:				
Creditors	20,000	Cash at bank		30,000
Outstanding expenses : Rent	500	Cash in hand		1,000
(B) *Provisions*	—	(B) *Loans & Advances*:		
		Prepaid Expenses:		
		Rates & taxes	400	
		Advertisement	2,000	2,400
		Miscellaneous Expenditure		—
	1,91,900			1,91,9000

Problem 7. A. B. C. Manufacturing Co. Ltd. was registered with a nominal capital of 5,000 shares of Rs. 10 each, of which 4,000 shares had been issued and fully paid.

The following Trial Balance was extracted as on 31st December 1968:

	Rs.	Rs.
Stock (January Ist)	18,600	
Manufacturing wages	10,900	
Coal and coke	1,900	
Purchases and sales	82,100	1,16,900
Machinery repairs	860	
Carriage inward	860	
Carriage outward	490	
Interim dividend	2,000	
Bank loan		5,000
Interest on loan	125	
Sundry debtors and creditors	16,440	9,220
Profit and loss account (January 1st)		2,200
Balance at bank	1,680	
Cash on hand	190	
Leasehold factory	6,420	
Machinery and plant	7,840	
Loose tools	1,250	
Share capital		40,000
Calls in arrears	100	
Rent, rates and light (factory Rs. 1,400, office Rs. 340)	1,740	
Directors fees	1,200	
Office salaries and expenses	1,420	
Office furniture	500	
Commission	865	
Returns	1,260	980
Preliminary expenses	600	
Transfer fee		40
Goodwill	15,000	
	1,74,340	1,74,340

You are required to prepare Manufacturing (Trading) and Profit and Loss account for the year ended 31st December 1968, after taking into consideration the following:

(1) Write off one-third of the preliminary expenses.

(2) Depreciate machinery and plant by 10% and office furniture by 10%.

(3) Provide for outstanding manufacturing wages Rs. 1,800 and office salaries Rs. 1,200.

(4) Interest on Bank loan is due for the half-year ended 31st December 1968—Rs. 125.

(5) The stock was valued at Rs. 12,480 and loose tools at Rs. 1,000.

Solution: *(I.I.B. Part I, May 1969)*

A.B.C. MANUFACTURING CO. LTD.
MANUFACTURING (TRADING) AND PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1968

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Stock (January 1st)		18,600	By Sales	1,16,900	
To Purchases	82,100		*Less:* Returns	1,260	1,15,640
Less: Returns	980	81,120	By Stock on hand		12,480
To Manufacturing wages	10,900				
Add: Outstanding	1,800	12,700			
To Coal and coke		1,900			
To Machinery repairs		860			
To Carriage inward		860			
To Rent, rates and light (Factory share)		1,400			
To Depreciation:					
On Plant (@ 10% on Rs. 7,840)		784			
On Loose tools: Purchased	1,250				
Less: Stock in hand	1,000	250			
To Gross profit c/d		9,646			
		1,28,120			1,28,120

Particulars	Details	Amount	Particulars	Amount
	Rs.	Rs.		Rs.
To Carriage outward		490	By Gross Profit b/d	9,646
To Interest on Bank loan:			By Transfer fee	40
Paid	125			
Add: Outstanding	125	250		
To Rent, rates and light (Office share)		340		
To Director's fees		1,200		
To Office salaries and expenses:				
Paid	1,420			
Add: Outstanding for office salaries	1,200	2,620		
To Commission		865		
To Preliminary expenses (1/3rd of Rs. 600 written off)		200		
To Depreciation: on Office Furniture (@ 10% on Rs. 500)		50		
To Net Profit c/d		3,671		
		9,686		9,686

A.B.C. MANUFACTURING CO. LTD.
PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ending 31st December 1968

Dr. *Cr.*

Particulars	Amount	Particulars	Details	Amount
	Rs.		Rs.	Rs.
To Interim dividend	2,000	By Balance b/d		
To Balance c/d	3,871	As on 1st January	2,000	
		Add: Profit for the year	3,671	5,871
	5,871			5,871

A.B.C. MANUFACTURING CO. LTD.
BALANCE SHEET

as at 31st December 1968

Liabilities & Capital	*Details*	*Amount*	*Properties & Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Share Capital :			**Fixed Assets :**		
Authorised :			(*a*) Goodwill		15,000
5,000 shares of Rs. 10 each		50,000	(*b*) Leasehold factory		6,420
Issued,			(*c*) Machinery		
Subscribed,			and Plant	7,840	
Called and			*Less* : Depreciation		
Paid up :			@ 10%	784	7,056
4,000 shares @			(*d*) Office Furniture	500	
Rs. 10 each	40,000		*Less* : Depreciation		
Less : Calls in			@ 10%	50	450
arrears	100	39,900			
Reserves and			**Investments :**		
Surplus :			**Current Assets,**		
Profit & Loss A/c		3,871	**Loans and**		
Secured Loans :			**Advances :**		
Bank Loans		5,000	(A) *Current Assets* :		
Unsecured Loans :		—	Loose Tools	1,250	
Current Liabilities and Provisions :			*Less* : Depreciation	250	1,000
(A) *Current Liabilities* :			Stock-in-trade		12,480
Sundry creditors		9,220	Sundry Debtors		16,440
Outstanding expenses :			Cash at bank		1,680
Manufacturing			Cash in hand		190
wages	1,800		(B) *Loans and Advances* :		
Interest on			**Miscellaneous**		
bank loan	125		**Expenditure :**		
Office salaries	1,200	3,125	Preliminary expenses	600	
			Less : 1/3rd written off	200	400
		61,116			61,116

BALANCE SHEET
OF————CO. LTD.
as at 31st December 1972

Liabilities and Capital	*Details*	*Amount*	*Properties and Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Share Capital :			**Fixed Assets ;**		
Authorised :			(*a*) Machinery at cost	2,30,000	
10,000 Equity shares of Rs. 10 each		1,00,000	*Less* : Depreciation upto 31-12-1971	69,000	
Issued, Subscribed, Called and Paid up :				1,61,000	
10,000 Equity shares of Rs. 10 each fully paid up		1,00,000	*Less* : Depreciation by 10% of cost for 1972	23,000	1,38,000
Reserves and Surplus :			(*b*) Delivery vehicles at cost	30,000	
General Reserve		29,000	*Less* : Depreciation upto 31-12-1971	12,000	
Profit & Loss A/c		12,000		18,000	
Debenture Redemption fund		45,000	*Less* : Depreciation by 20% of cost for 1972	6,000	12,000
Secured Loans :			**Investments :**		
5% Debentures		80,000	Debenture redemption fund investments		45,000
Unsecured Loans :		—	**Current Assets, Loans and Advances :**		
Current Liabilities and Provisions :			(A) *Current Assets* :		
(A) *Current Liabilities* :			Stock-in-trade		52,000
Creditors		28,000	Debtors		38,000
Outstanding expenses :			Bank Balances		30,000
Audit fees	1,000		(B) *Provisions* :		
Compensation to an ex-Director	6,000	7,000	**Miscellaneous Expenditure**		—
(B) *Provisions* :					
Provision for tax liability	9,000				
Proposed dividend (@ 5% on the paid up capital of Rs. 1,00,000	5,000	14,000			
		3,15,000			3,15,000

Problem 9. The Directors of Everlast Limited ask you to prepare the profit and Loss Account for the year ended 31st December, 1979 and the Balance Sheet (in the prescribed form) as on that date. The balances on the books after closing the Trading Account are as follows:

Debit	Rs.	*Credit*	Rs.
Land and Buildings—at cost	5,00,000	Equity Share Capital (Rs. 80 paid up)	6,00,000
Plant—at cost	8,00,000	Share premium Account	1,00,000
Investments: (At cost)	2,00,000	Depreciation provided up to 31st December, 1978:	
Stock of Finished Goods (at cost) as on 31-12-79	70,000	On Land & Building	1,50,000
Balances with Scheduled Banks on Current Account	60,000	On Plant	1,00,000
		General Reserve	1,10,000
Cash on hand	700	6% Debentures (Secured by mortgage on Fixed Assets)	3,50,000
Sundry Debtors	1,00,000	Profit and Loss Account 1st January 1979	25,000
Income Tax deducted at source on dividend	2,300	Sundry Creditors	80,000
Establishment expenses	65,000	Dividends (Gross)	10,000
Rent and Taxes	6,000	Gross Profit as per Trading A/c	3,06,700
Interest on Debentures upto 30th June 1979	10,500		
Audit fees	2,500		
Director's fees	14,000		
Sundry expenses	700		
	18,31,700		18,31,700

You ascertain that:

(*a*) The Authorised Capital of the Company is Rs. 10,00,000, dividend into 10,000 Equity Shares of Rs. 100 each.

(*b*) Market value of Investments as on the date of balance sheet is Rs. 2,25,0 0.

(*c*) *Depreciation is to be provided* on the written down value of Land and Buildings at 5 per cent and Plant at 10 per cent.

(*d*) Provide for remuneration due to the Managing Director at 5 per cent of the net profits before charging such remuneration.

(*e*) Provision for *Taxation is to be made at* 50 per cent of the net profit.

(*f*) Directors transfer Rs. 15,000 to General Reserve and recommend a dividend at 10 per cent on Equity Shares.

(I.I.B. Part I—Octo

PROFIT & LOSS ACCOUNT OF EVERLAST LTD.
for the year ended 31st December, 1979

Cr.

Figures for the year 1978	Particulars		Amount	Figures for the year 1978	Particulars		Amount
			Rs.				Rs.
	To Establishment expenses		65,000		By Gross profit b/d		3,06,700
	To Rent, rates & taxes		6,000		By Dividends: Gross	10,000	
	To Audit fees		2,500		*Less*: Income Tax deducted at source	2,300	7,700
	To Directors fees		14,000				
	To Sundry Expenses		700				
	To Interest on Debentures paid upto 30-6-79	10,500					
	Outstanding for half year ending 31-12-79	10,500	21,000				
	To Depreciation on Land & Building (@ 5% on the WDV of Rs. 3,50,000)		17,500				
	To Depreciation on Plant (@ 1% on the WDV of Rs. 7,00,000)		70,000				
			1,96,700				
	To Managing Directors remuneration (@ 5% on Rs. 1,17,700 (3,14,400—1,96,700)		5,885				
	To Net Profit		1,11,815				
			3,14,400				3,14,4

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *Cr.*

	Rs. P.		Rs. P.
To Provision for taxation (50% of Rs. 1,11,815)	55,97·50	By Balance b/d	25,000·00
		By Net Profit	1,11,815·00
To Transfer to General Reserve	15,000 00		
To Dividend (Proposed) @ 10% on Rs. 6,00,000	60,000·00		
To Balance c/d	5,907·50		
	1,36,815·00		1,36,815·00

BALANCE SHEET OF EVERLAST LTD.

as on 31st December, 1979

Figures as on 31-12-78	Liabilities		Amount	Figures as on 31-12-78	Assets		Amount
			Rs.				Rs.
	Share Capital:				**Fixed Assets:**		
	Authorised Capital 10,000 Equity shares of Rs. 100 each		10,00,000		Land & Building Cost	5,00,000	
					Less: Depreciation provided upto 31-12-78	1,50,000	
						3,50,000	
	Issued Capital: 7,500 Equity shares of Rs. 100 each		7,50,000		*Less:* Depreciation provided @ 5% for the year on WDV	17,500	3,32,500
	Subscribed and paid up capital: 7,500 Equity shares of Rs. 100 each, Rs. 80 per share called and paid up		6,00,000		Plant-cost	8,00,000	
	Reserves and Surplus:				*Less:* Depreciation provided upto 31-12-78	1,00,000	
	Share premium A/c		1,00,000			7,00,000	
	General Reserve: Opening Balance	1,10,000			*Less:* Depreciation provided @ 10% for the year on WDV	70,000	6,30,000
	Additions during the year	15,000	1,25,000				
	Profit & Loss A/c		5,907		Total c/d		9,62,500
	Total c/d		8,30,907				

Total b/d	8,30,907	Total b/d	9,62,500
Secured Loans:		**Investments (at cost)**	
6% Debentures (Secured by Mortgage on Fixed Assets)	3,50,000	Market Value of Investments as on date is Rs. 2,25,000	2,00,000
Unsecured Loans;	—	**Current Assets, Loans and Advances:**	
Current liabilities and Provisions:		(A) *Current Assets:*	
(A) *Current Liabilities:*		Stock of finished goods (valued at cost)	70,000
Sundry creditors	80,000	Sundry Debtors	1,00,000
Interest on Debentures accrued from 1-7-79 to 31-12-79	10,500	Cash on hand	700
(B) *Provisions:*		Bank Balances—	
Provision for taxation	55,908	With scheduled banks on Current Account	60,000
Proposed Dividend @ 10% on Rs. 6,00,000	60,000	(B) *Loans & Advances:*	
Provision for Managing Directors Remuneration @ 5% of net profits amounting to Rs. 1,17,700	5,885	**Miscellaneous Expenditure:**	
	13,93,200		13,93,200

Problem 10. A.B.C. Ltd. was registered on 1st January 1973 with a Nominal capital of Rs. 15,00,000 divided into 5,000 6% Preference shares of Rs. 100 each and 10,000 Ordinary shares of Rs. 100 each.

The following are the other balances as on 31st December 1973:

	Rs.
Carriage inwards	4,773
Advertising	1,654
Fuel and lighting	2,163
Packing charges	542
Machinery repairs	177
Truck expenses	913
Miscellaneous expenses	1,022
Ordinary share capital fully paid	5,00,000
Preference share capital	5,00,000
Director's fees	1,500
Buildings at cost	90,300
Machinery at cost	7,00,000
Goodwill	66,700
Stock taken over from predecessor company	50,000
Cash in hand	210
Motor vehicles at cost	50,000
Purchases	1,10,500
Purchases returns	3,700
Factory wages	25,000
Salaries (including Managing Director's Rs. 15,000) and travellers' commission	25,000
Rents, rates and insurance	5,100
Sales	2,20,000
Sales returns	6,619
Discount (*Debit*)	2,500
Bad debts written off	1,500
Legal and accountancy charges	2,500
Debtors	25,000
Creditors	10,000
Cash at bank	25,000
Preliminary expenses	35,027

You are required to prepare a Trading and Profit and Loss account for the year ended 31st December 1973 and a Balance Sheet as at that date after taking into consideration the following adjustments:

	Rs.
(1) Rent paid in advances	150
(2) Traveller's commission owing	250
(3) Insurance prepaid	150
(4) Depreciate (1) Motor Vehicles by	5,000
(2) Buildings by	9,300
(5) Stock on hand	35,000

(*I.I.B. Part I, November 1974*)

A.B.C. Ltd.
TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st December 1973

Dr. Particulars	Details	Amount	Particulars	Details	*Cr.* Amount
	Rs.	Rs.		Rs.	Rs.
To Opening stock (taken over from pedecessor company)		50,000	By Sales	2,20,000	
			Less: returns	6,619	2,13,381
To Purchases	1,10,500		By Stock on hand		35,000
Less: Returns	3,700	1,06,800			
To Factory wages		25,000			
To Carriage inwards		4,773			
To Fuel and lighting		2,163			
To Gross profit c/d (*Balancing figure*)		59,645			
		2,48,381			2,48,381
To Advertising		1,654	By Gross profit b/d		59 645
To Packing charges		542			
To Machinery repairs		177			
To Truck expenses		913			
To Miscellaneous expenses		1,022			
To Directors fees		1,500			
To Salaries and Travellers Commission	10,000				
Add: Outstanding	250	10,250			
To Managing director's salaries		15,000			
To Rent, rates, and insurance	5,100				
Less: Rent paid in advance	150				
	4,950				
Less: Insurance prepaid	150	4,800			
To Discount		2,500			
To Bad debts (written off)		1,500			
Total c/d		39,858	Total c/d		59,645

otal b/d	39,858	Total b/d	59,645
al and accoun- y charges	2,500		
preciation : Motor vehicles 5,000 Buildings 9,300	14,300		
let Profit trans- rred to balance sheet	2,987		
	59,645		59,645

A.B.C. LTD. BALANCE SHEET
as at 31st December 1973

Liabilities & Capital	*Amount*	*Properties & Assets*	*Details*	*nount*
	Rs.		Rs.	Rs.
Share Capital:		**Fixed Assets :**		
Nominal :		(*a*) Goodwill		66,700
5,000 6% Preference shares of Rs. 100 each	5,00,000	(*b*) Buildings at cost	90,300	
		Less : Deprecia- tion	9,300	81,000
10,000 Equity shares of Rs. 100 each	10,00,000	(*c*) Machiney at cost		7,00,000
	15,00,000	(*d*) Motor vehicles at cost	50,000	
		Less : Deprecia- tion	5,000	45,000
Issued, Subscribed, called and Paid up :		**Investments :**		—
5,000 6% Preference shares of Rs. 100 each fully paid up	5,00,000	**Current Assets, Loans & Advances :**		
		(A) *Current Assets* :		
		Stock on hand		35,00
5,000 Equity shares of Rs. 100 each fully paid up	5,00,000	Debtors		25,00
		Cash at Bank		25,00
	10,00,000	Cash in hand		21
Reserves and Surplus :		(B) *Loans and Advances* :		
Profit & Loss A/c	2,987	Prepaid expenses :		
Secured Loans :	—	Rent	150	
Unsecured Loans:	—	Insurance	150	3
Current Liabilities & Provisions :				
Total c/d	10,02,987	Total c/d		9,78

Total b/d		10,02,987	Total b/d	9,78,210
(A) *Current Liabilities :*			**Miscellaneous Expenditure :**	
Creditors	10,000		Preliminary expenses	35,027
Traveller's commission outstanding	250	10,250		
(B) *Provisions :*		—		
		10,13,237		10,13,237

Problem 11: The following Trial Balance has been extracted from the books of X Y Z Ltd. as on 31st March 1976. You are requerted to prepare :

(*a*) Profit and loss account for the year ended on 31st March 1976 ; and

(*b*) Balance sheet as on that date in the form prescribed under Schedule VI to the Companies Act, 1956.

Debit	*Amount*	*Credit*	*Amount*
	Rs.		Rs.
Land and building (Original cost Rs. 30,000)	14,000	Share capital	20,000
		General reserve	3,000
Furniture (Original cost Rs. 1,500)	800	8% Debentures	10,000
		Bank overdraft	150
Plant and machinery (Original cost Rs. 20,000)	10,000	Sundry creditors	1,600
		Share premium	1,000
Stock (31st March 1976)	12,800	Debenture redemption reserve	4,000
Salaries	800		
Printing and stationery	120	Gross profit	10,400
Debtors	7,000	Profit and Loss account	850
Investments (at cost)	600		
Cash on hand	200		
Preliminary expenses	400		
Cash at scheduled banks	2,400		
Advance income-tax	800		
Interest	200		
Debenture interest	400		
Director's fees	200		
Rent, rates and insurance	280		
	51,000		

The following further information is given :

(1) Depreciation is to be provided for the year as under :

(*a*) Land and building at 5% on straight line basis.

(*b*) Furniture and Plant and machinery at 10% on reducing balance basis.

(2) Debtors worth Rs. 6,000 are less than 6 months old. Out of the remaining debtors worth Rs. 500 are considered bad for which full provision is to be made.

(3) The authorised share capital consists of 1,000 Equity shares of Rs. 100 each, of which 400 shares are issued and Rs. 50 per share are called and paid up.

	Rs.
(4) Provide for	
(*i*) Audit fees	250
(*ii*) Provision for income-tax	2,400

(5) Insurance is prepaid to the extent of Rs. 80.

(6) The directors have recommended :

(*a*) Transfer of Rs. 1,000 to Debenture redemption reserve.

(*b*) Transfer of Rs. 400 to General reserve.

(*c*) Equity dividend at 8% on paid up capital.

(7) It has been decided to write off half of the preliminary expenses.

(8) Previous year figures need not be given.

(I.I.B. Part I, October 1976)

Solution:

X Y Z LTD. PROFIT AND LOSS ACCOUNT

for the year ended 31st March 1976

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Amount*
	Rs.	Rs.		Rs.
To Salaries		800	By Gross Profit b/d	10,400
To Printing and stationery		120		
To Interest		200		
To Debenture interest (@ 8% on Rs. 10,000) :				
Paid	400			
Outstanding	400	800		
To Director's fees		200		
To Rent, rates and Insurance :				
Paid	280			
Less : Insurance prepaid	80	200		
Total b/d		2,320	Total b/d	10,400

Total b/d		2,320	Total b/d	10,400
To Depreciation :				
Land & building (@ 5% on Rs. 30,000)		1,500		
Furniture (at 10% on Rs. 800)	80			
Plant & machinery (at 10% on Rs. 10,000)	1,000	2,580		
To Provision for bad debts		500		
To Provision for audit fees		250		
To Provision for income lax		2,400		
To Preliminary expenses (½ of Rs. 400 written off)		200		
To Net Profit c/d (*Balancing figure*)		2,150		
		10,400		10,400

XYZ LTD.
PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st December 1976

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Debenture redemption reserve (Amount transferred as per resolution dated—)	1,000	By Balance b/d For 1974-75	850	
		For 1975-76	2,150	3,000
To General reserve (Amount transferred as per resolution dated—)	400			
To Equity dividend (Proposed) (Amount transferred @ 8% on paid up capital of Rs. 20,000 divided into 400 shares of Rs. 100 each, Rs. 50 per share called and paid up as per board resolution dated——)	1,600			
	3,000			

The following further information is given :

(1) Depreciation is to be provided for the year as under :

(a) Land and building at 5% on straight line basis.

(b) Furniture and Plant and machinery at 10% on reducing balance basis.

(2) Debtors worth Rs. 6,000 are less than 6 months old. Out of the remaining debtors worth Rs. 500 are considered bad for which full provision is to be made.

(3) The authorised share capital consists of 1,000 Equity shares of Rs. 100 each, of which 400 shares are issued and Rs. 50 per share are called and paid up.

(4) Provide for — Rs.

(i) Audit fees — 250

(ii) Provision for income-tax — 2,400

(5) Insurance is prepaid to the extent of Rs. 80.

(6) The directors have recommended :

(a) Transfer of Rs. 1,000 to Debenture redemption reserve.

(b) Transfer of Rs. 400 to General reserve.

(c) Equity dividend at 8% on paid up capital.

(7) It has been decided to write off half of the preliminary expenses.

(8) Previous year figures need not be given.

(I.I.B. Part I, October 1976)

Solution:

X Y Z LTD. PROFIT AND LOSS ACCOUNT

for the year ended 31st March 1976

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Amount*
	Rs.	Rs.		Rs.
To Salaries		800	By Gross Profit b/d	10,400
To Printing and stationery		120		
To Interest		200		
To Debenture interest (@ 8% on Rs. 10,000) :				
Paid	400			
Outstanding	400	800		
To Director's fees		200		
To Rent, rates and Insurance :				
Paid	280			
Less : Insurance prepaid	80	200		
Total b/d		2,320	Total b/d	10,400

Total b/d		2,320	Total b/d	10,400
To Depreciation :				
Land & building (@ 5% on Rs. 30,000)		1,500		
Furniture (at 10% on Rs. 800)	80			
Plant & machinery (at 10% on Rs. 10,000)	1,000	2,580		
To Provision for bad debts		500		
To Provision for audit fees		250		
To Provision for income tax		2,400		
To Preliminary expenses (½ of Rs. 400 written off)		200		
To Net Profit c/d (*Balancing figure*)		2,150		
		10,400		10,400

X Y Z LTD.
PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st December 1976

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.		Rs.	Rs.
To Debenture redemption reserve (Amount transferred as per resolution dated—)	1,000	By Balance b/d		
		For 1974-75	850	
		For 1975-76	2,150	3,000
To General reserve (Amount transferred as per resolution dated—)	400			
To Equity dividend (Proposed) (Amount transferred @ 8% on paid up capital of Rs. 20,000 divided into 400 shares of Rs. 100 each, Rs. 50 per share called and paid up as per board resolution dated——)	1,600			
	3,000			3,000

BALANCE SHEET X Y Z LTD.

as on 31st March 1976

iabilities : Capital	Details	Amount	Properties & Assets	Details	Amount
	Rs.	Rs.		Rs.	Rs.
hare Capital:			**Fixed Assets:**		
Authorised: 1,000 Equity shares of Rs. 100 each		1,00,000	(a) Land and Building Original cost	30,000	
			Less: Depreciation provided upto 1974-75	16,000	
				14,000	
Issued and Subscribed: 400 Equity shares of Rs. 100 each		40,000	*Less*: Depreciation provided @ 5% on straight line basis for 1975-76	1,500	12,500
Called up and Paid up: 400 Equity shares of Rs. 100 each—Rs. 50 per share called and paid up		20,000	(b) Plant & machinery: Original cost	20,000	
			Less: Depreciation provided upto 1974-75	10,000	
				10,000	
Reserves and Surplus: Share premium		1,000	*Less*: Depreciation provided @ 10% on reducing balance basis for 1975-76	1,000	9,00
Debenture redemption reserve	4,000		(c) Furniture: Original cost	1,500	
Add: Additions for 1975-76	1,000	5,000			
General Reserve	3,000		*Less*: Depreciation provided upto 1974-75	700	
Add: Additions for 1975-76	400	3,400	*Less*: Depreciation provided @ 10% on reducing balance basis for 1975-76	80	
Secured Loans: 8% Debentures		10,000			
Total c/d		39,400	Total c/d		22

Total b/d		39,400	Total b/d		9
Unsecured Loans:			**Investments:**		22,
Bank overdraft		150	(at cost)		6
Current Liabilities and Provisions:			**Current Assets, Loans and Advances:**		
(A) *Current Liabilities:*			(A) *Current Assets:*		
Sundry Creditors		1,600	Stock on hand		12,800
Outstanding expenses:			Debtors:		
Debenture interest accrued due	400		(*a*) Outstanding for a period exceeding six months	6,000	
Audit fee	250	650	(*b*) Other debts	1,000	
(B) *Provisions:*				7,000	
Provision for income tax	2,400		*Less:* Provision for bad debts	500	6,500
Equity dividend (proposed)	1,600	4,000	Cash at scheduled banks		2,400
			Cash on hand		200
			(B) *Loans and Advances:*		
			Prepaid expenses	80	
			Income tax	800	880
			Miscellaneous Expenditure:		
			Preliminary expenses	400	
			Less: Written off	200	200
		45,800			45,800

Problem 12. The following trial balance has been extracted from the books of M/s Leak-proof Ltd., as on 31st March 1977. The authorised capital of the company consists of 10,000 Equity shares of Rs. 10 each and 300 5% Preference shares of Rs. 100 each.

	Rs.	Rs.
Equity share capital		1,00,000
Preference share capital (200 shares)		20,000
Sales and Purchases	1,10,670	1,60,800
Stock-in-trade, 1st April 1976	29,145	
Preference dividend to 30th September 1976	500	
Provision for bad debts		600
Investment income		1,000
Wages and salaries	16,328	
Motor car expenses	5,895	
Vehicles (Cost Rs. 18,000)	9,240	
Debtors and Creditors	28,370	25,650
Rates and insurance	1,217	
Freehold land (at cost)	88,000	
Profit and loss A/c—1st April 1976		6,954
Director's remuneration	3,000	
Bad debts	770	
Investments (unquoted—at cost)	5,800	
General expenses	7,890	
Balance at scheduled banks	8,179	
	3,15,004	3,15,004

You are also given the following further information:

(i) Stock-in-trade on 31st March 1977 Rs. 32,630.

(ii) The provision for bad debts to be increased upto Rs. 750.

(iii) A dividend of 10% on Equity capital is recommended.

(iv) Depreciation on vehicles is to be provided at 20% on cost.

(v) Prepaid insurance is Rs. 78.

(vi) Outstanding wages Rs. 200.

(vii) Rs. 3,000 are to be transferred to General reserve.

(viii) An office block was constructed during the year by the company's own workmen, the cost of their labour being Rs. 420, which is included in wages. The materials belonging to the company, costing Rs. 1,180 were also spent. No entries have been made in the books.

You are required to prepare final accounts of the company for the year ended 31st March 1977 as required by the Companies Act, 1956.

(I.I.B. Part I, November 1977)

LEAK PROOF LTD.
TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st March, 1977

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Amount*
	Rs.	Rs.		Rs.
To Stock-in-trade (1st April, 1976)		29,145	By Stock-in-trade (31st March 1977)	32,630
To Purchases	1,10,670		By Sale	1,60,800
Less: Material consumed for the construction of an office block transferred to buildings A/c	1,180	1,09,490		
To Wages & salaries	16,328			
Less: Wages paid for constructing the office block transferred to building A/c	420			
	15,908			
Add: Wages outstanding	200	16,108		
To Gross profit c/f		38,687		
		1,93,430		1,93,430

Problem 12. The following trial balance has been extracted from the books of M/s Leak-proof Ltd., as on 31st March 1977. The authorised capital of the company consists of 10,000 Equity shares of Rs. 10 each and 300 5% Preference shares of Rs. 100 each.

	Rs.	Rs.
Equity share capital		1,00,000
Preference share capital (200 shares)		20,000
Sales and Purchases	1,10,670	1,60,800
Stock-in-trade, 1st April 1976	29,145	
Preference dividend to 30th September 1976	500	
Provision for bad debts		600
Investment income		1,000
Wages and salaries	16,328	
Motor car expenses	5,895	
Vehicles (Cost Rs. 18,000)	9,240	
Debtors and Creditors	28,370	25,650
Rates and insurance	1,217	
Freehold land (at cost)	88,000	
Profit and loss A/c—1st April 1976		6,954
Director's remuneration	3,000	
Bad debts	770	
Investments (unquoted—at cost)	5,800	
General expenses	7,890	
Balance at scheduled banks	8,179	
	3,15,004	3,15,004

You are also given the following further information:

(*i*) Stock-in-trade on 31st March 1977 Rs. 32,630.

(*ii*) The provision for bad debts to be increased upto Rs. 750.

(*iii*) A dividend of 10% on Equity capital is recommended.

(*iv*) Depreciation on vehicles is to be provided at 20% on cost.

(*v*) Prepaid insurance is Rs. 78.

(*vi*) Outstanding wages Rs. 200.

(*vii*) Rs. 3,000 are to be transferred to General reserve.

(*viii*) An office block was constructed during the year by the company's own workmen, the cost of their labour being Rs. 420, which is included in wages. The materials belonging to the company, costing Rs. 1,180 were also spent. No entries have been made in the books.

You are required to prepare final accounts of the company for the year ended 31st March 1977 as required by the Companies Act, 1956.

(*I.I.B. Part I, November 1977*)

LEAK PROOF LTD.
TRADING AND PROFIT & LOSS ACCOUNT

for the year ended 31st March, 1977

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Amount*
	Rs.	Rs.		Rs.
To Stock-in-trade (1st April, 1976)		29,145	By Stock-in-trade (31st March 1977)	32,630
To Purchases	1,10,670		By Sale	1,60,800
Less: Material consumed for the construction of an office block transferred to buildings A/c	1,180	1,09,490		
To Wages & salaries	16,328			
Less: Wages paid for constructing the office block transferred to building A/c	420			
	15,908			
Add: Wages outstanding	200	16,108		
To Gross profit c/f		38,687		
		1,93,430		1,93,430

To Motor car expenses		5,895	By Gross profit b/d	38,687
To Rates and insurance	1,217		By Investment income	1,000
Less: Prepaid	78	1,139		
To Director's remuneration		3,000		
To Bad debts		770		
To Provision for bad debts required	750			
Less: Old reserve	600	150		
To General expenses		7,890		
To Depreciation: on Vehicles (@ 20% on Rs. 18,000)		3,600		
To Net Profit c/d to profit and loss appropriation A/c		17,243		
		39,687		39,687

LEAK PROOF LTD.
PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March 1977

Dr. Particulars	Amount	Particulars	Details	Cr. Amount
	Rs.		Rs.	Rs.
To Preference dividend (Paid from 1-4-1976 to 30-9-1976, *i.e.* for 6 months @ 5% p.a. on Rs. 20,000)	500	By Balance b/d: As on 1st April, 1976	6,954	
		For the year ended 31st March, 1977	17,243	24,197
To Provision for preference dividend (Provided for the remaining 6 months, *i.e.* from 1-10-1976 to 31-3-1977 @ 5% p.a. on Rs. 20,000)	500			
To Provision for equity dividend (@ 10% on Rs. 1,00,000)	10,000			
To General Reserve (Amount transferred)	3,000			
To Balance c/d	10,197			
	24,197			24,197

BALANCE SHEET OF LEAK PROOF LTD.
as on 31st March, 1977

Liabilities & Capital	*Amount*	*Properties & Assets*	*Details*	*Amount*
	Rs.		Rs.	Rs.
Share Capital:		**Fixed Assets:**		
Authorised:		(*a*) Buildings:		
300 5% Preference shares of Rs. 100 each	30,000	Material transferred from trading A/c	1,180	
10,000 Equity shares of Rs. 10 each	1,00,000	Wages transferred from trading A/c	420	1,600
	1,30,000	(*b*) Freehold land		88,000
Total c/d	—	Total c/d		89,600

	Rs.		Rs.	Rs.
Total b/d	—	Total b/d		89,600
Issued, Subscribed, Called and paid up:		(*c*) Vehicles:		
200 5% Preference shares of Rs. 100 each	20,000	Cost	18,000	
10,000 Equity shares of Rs. 10 each	1,00,000	*Less*: Depreciation upto 31-3-1976	8,760	
	1,20,000	Book value on 1-4-1976	9,240	
Reserves and Surplus:		*Less*: Depreciation @ 20% on cost for the year ending 31-3-1977	3,600	5,640
General reserve	3,000			
Profit & Loss A/c	10,197	**Investments:**		
Secured Loans:	—	Unquoted—at cost		5,800
Unsecured Loans:	—	**Current Assets, Loans and Advances:**		
Current Liabilities and Provisions;				
(A) *Current Liabilities*:		(A) *Current Assets*:		
Sundry Creditors	25,650	Stock-in-trade (31st March 1977)		32,630
Outstanding expenses for wages	200	Sundry Debtors	28,370	
		Less: Provision for bad debts	750	27,620
(B) *Provisions*:		Balance at scheduled banks		8,179
Provision for Preference dividend (@ 5% on Rs. 20,000 for half year ending 31-3-1977)	500	(B) *Loans & Advances*:		
		Prepaid nsurance		78
Provision for equity dividend (@ 10% on Rs. 1,00,000)	10,000			
	1,69,547			1,69,547

Problem 13. The following Trial Balance was extracted from the books of Dye-chem Industries Ltd. as on 31st March 1982 :—

Debit	Rs.	*Credit*	Rs.
Cash in hand	250	Share Capital (8,000 shares of Rs. 10 each)	80,000
Unpaid calls	600		
Professional charges	2,5 0		
Income Tax paid	10,000	Provision for Taxation (31st March 1981)	16,900
Sundry Debtors	1,27,000		
Bank charges	1,430	P & L A/c	44,000
Advertising	,000	Bank Overdraft	16,000
Office Equipments	10,600	Sales	10,42,000
Motor Vehicles	49,900	Provision for Doubtful Debts at 31st March 1981	4,200
Purchases	8,72,400		
Stock on 31st March 1981	69,000	Sundry creditors	62,000
Motor Car expenses	5,000		
Travelling and Conveyance	14,900		
Rent, Rates etc.	12,000		
Repairs and Maintenance	2,200		
Salaries	54,500		
Director's remuneration	15,000		
Printing and Stationery	4,900		
Office expense	8,850		
	12,65,100		12,65,100

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March 1982 and a Balance Sheet as on that date, after taking into account the following further information :—

(1) Debts amounting to Rs. 3,600 are to be written off as Bad and the provision for Bad and Doubtful Debts is to be increased to Rs. 6,150.

(2) Sundry Debtors include goods supplied on "Sale or Return" basis amounting to Rs. 4,800. These goods cost Rs. 4,000 and at March 31st 1982, one-half had been retained by the customers.

(3) The stock in godown at 31st March 1982 is valued at Rs. 81,000.

(4) The motor car expenses include licences for the year ending December 31, 1982 which cost Rs. 1,200 and insurance for the year to September 30, 1982 which cost Rs. 2,000.

Total b/d	—
Issued, Subscribed, Called and paid up:	
200 5% Preference shares of Rs. 100 each	20,000
10,000 Equity shares of Rs. 10 each	1,00,000
	1,20,000
Reserves and Surplus:	
General reserve	3,000
Profit & Loss A/c	10,197
Secured Loans:	—
Unsecured Loans:	—
Current Liabilities and Provisions;	
(A) *Current Liabilities:*	
Sundry Creditors	25,650
Outstanding expenses for wages	200
(B) *Provisions:*	
Provision for Preference dividend (@ 5% on Rs. 20,000 for half year ending 31-3-1977)	500
Provision for equity dividend (@ 10% on Rs. 1,00,000)	10,000
	1,69,547

Total b/d		89,600
(*c*) Vehicles:		
Cost	18,000	
Less: Depreciation upto 31-3-1976	8,760	
Book value on 1-4-1976	9,240	
Less: Depreciation @ 20% on cost for the year ending 31-3-1977	3,600	5,640
Investments:		
Unquoted—at cost		5,800
Current Assets, Loans and Advances:		
(A) *Current Assets:*		
Stock-in-trade (31st March 1977)		32,630
Sundry Debtors	28,370	
Less: Provision for bad debts	750	27,620
Balance at scheduled banks		8,179
(B) *Loans & Advances:*		
Prepaid insurance		78
		1,69,547

Problem 13. The following Trial Balance was extracted from the books of Dye-chem Industries Ltd. as on 31st March 1982 :—

Debit	Rs.	*Credit*	Rs.
Cash in hand	250	Share Capital (8,000 shares of Rs. 10 each)	80,000
Unpaid calls	600		
Professional charges	2,5. 0		
Income Tax paid	10,000	Provision for Taxation (31st March 1981)	16,900
Sundry Debtors	1,27,000		
Bank charges	1,430	P & L A/c	44,000
Advertising	,000	Bank Overdraft	16,000
Office Equipments	10,600	Sales	10,42,000
Motor Vehicles	49,900	Provision for Doubtful Debts at 31st March 1981	4,200
Purchases	8,72,400		
Stock on 31st March 1981	69,000	Sundry creditors	62,000
Motor Car expenses	5,000		
Travelling and Conveyance	14,900		
Rent, Rates etc.	12,000		
Repairs and Maintenance	2,200		
Salaries	54,500		
Director's remuneration	15,000		
Printing and Stationery	4,900		
Office expense	8,850		
	12,65,100		12,65,100

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March 1982 and a Balance Sheet as on that date, after taking into account the following further information :—

(1) Debts amounting to Rs. 3,600 are to be written off as Bad and the provision for Bad and Doubtful Debts is to be increased to Rs. 6,150.

(2) Sundry Debtors include goods supplied on "Sale or Return" basis amounting to Rs. 4,800. These goods cost Rs. 4,000 and at March 31st 1982, one-half had been retained by the customers.

(3) The stock in godown at 31st March 1982 is valued at Rs. 81,000.

(4) The motor car expenses include licences for the year ended December 31, 1982 which cost Rs. 1,200 and insurance for the year to September 30, 1982 which cost Rs. 2,000.

(5) No provision has been made for expenditure on repairs amounting to Rs. 800.

(6) Depreciate Motor Vehicles at 20% and office Equipment at 10%.

(7) Provide for Audit fee Rs. 5,000.

(8) Income-Tax liability for the accounting year ended 31st March 1981 has been determined at Rs. 15,050.

(9) For the accounting year ended on 31st March 1982, provision for taxation is to be made at Rs. 23,500.

(10) The authorised Capital of the Company is Rs. 1,50,000 divided into 15,000 equity shares of Rs. 10 each.

(*I.I.B. Part I, November 1982*)

Solution :

TRADING AND PROFIT & LOSS ACCOUNT
OF DYE-CHEM INDUSTRIES LTD.
for the year ended 31st March, 1982

Dr. *Cr.*

Particulars	*Details*	*Amount*	*Particulars*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
To Stock on 1-4-1981		69,000	By Sales	10,42,000	
To Purchases		8,72,400	*Less* : Returns of goods sold on 'sale or return' basis (half of Rs. 4800)	2,400	10,39,600
To Gross Profit c/d (*Blancing figure*)		1,81,200	By Stock in godown	81,000	
			Add : Stock of goods with customers sold on 'sale or return' basis (half of Rs. 4,000, the cost)	2,000	83,000
		11,22,600			11,22,600
To Professional charges		2,570	By Gross Profit b/fd		1,81,200
To Bank charges		1,430			
To Advertising		3,000			
To Travelling & conveyance		14,900			
To Rent, Rates, etc.		12,000			
Total c/d		33,900	Total c/d		1,81,200

	Rs.	Rs.		Rs.
Total b/d		33,900	Total b/d	1,81,200
To Salaries		54,500		
To Director's remuneration		15,000		
To Printing and Stationery		4,900		
To Office expenses		8,850		
To Motor Car expenses (*working note No. 1*)		3,100		
To Bad debts written off		3,600		
To Provision for bad and doubtful debts: New provision	6,150			
Less : Old provision	4,200	1,950		
To Income Tax paid	10,000			
Add : New provision to be made (*working note 3*)	21,650			
	31,650			
Less : Old provision	15,050	16,600		
To Repairs and maintenance	3,200			
Add : Provision for expenditure on repairs	800	4,000		
To Provision for audit fee		5,000		
To Depreciation 20% on motor vehicles of Rs. 49,900	9,980			
10% on office equipments of Rs. 10,600	1,060	11,040		
To Net Profit c/d (*Balancing figure*)		18,760		
		1,81,200		1,81,200

PROFIT & LOSS APPROPRIATION ACCOUNT

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Balance c/d to Reserves and surplus	62,760	By Balance upto the last year	44,000
		By Net profit for the current year	18,760
	62,760		62,760

BALANCE SHEET OF DYE-CHEM INDUSTRIES LTD.
as on 31st March 1982

Liabilites & Capital	*Details*	*Amount*	*Properties & Assets*	*Details*	*Amount*
		Rs.			Rs.
Share Capital ;			**Fixed Assets ;**		
Authorised :			Office Equipments	10,600	
15,000 equity shares of Rs. 10 each		1,50,000	*Less* : 10% Depreciation	1,060	9,540
Issued, Subscribed and Called up Capital ;			Motor Vehicles	49,900	
8,000 equity shares of Rs. 10 each	80,000		*Less* : 20% Depreciation	9,980	39,920
Less: unpaid calls	600		**Investments :**		...
			Current Assets, & Loans Advances:		
Paid up Capital		79,400	*A. Current Assets*:		
Reserves & Surplus			Stock in hand :		
Profit & Loss		62,760	in godown	81,000	
			with customers	2,000	83,000
Secured Loans		...	Sundry Debtors	1,27,000	
Unsecured Loans			*Less* :Bad Debts written off	3,600	
Bank overdraft		16,000		1,23,400	
Current Liabilities & Provisions					
A. *Current Liabilities*					
Sundry Creditors		62,000	*Less* : Goods returned on sale or return basis	2,400	
B. *Provisions*					
Provision for Income Tax		23,500			
Total c/fd		2,43,660	Total c/d	1,21,000	1,32,460

Total b/d	2,43,660	Total b/d	1,21,000	1,32,460
Provision for expenture on repairs	800	*Less* : Provision for bad and doubtful debts	6,150	1,14,850
Provision for audit fee	5,000			
		Cash in hand		250
		B. *Loans and Advances* :		
		Insurance prepaid (working note 1)		1,000
		Licence fee prepaid (working note 1)		900
		Miscellaneous Expenditure		...
	2,49,460			2,49,460

Working Notes :

1 Motor Car Expenses :

	Rs.
Motor car expenses comprise of as under :	
(a) Licences for the year ended 31-12-1982	1,200
(b) Insurance for the year ended 30-9-1982	2,000
(c) Other expenses (*Balancing figure*)	1,800
Total (as given)	5,000

As the accounts are maintained for the year ending 31-3-82 ;

(a) Licence fee is paid in advance for a period of 9 months *i.e.* from 1-4-82 to 31-12-82 @ Rs. 100 p.m.	900
(b) Insurance is paid in advance for a period of 6 months *i.e.* from 1-4-82 to 30-9 82 @ Rs. 2,000 p.a.	1,000
	1,900

Motor car expenses pertaining to the current year are therefore ;

	Rs.
Licence fee	300
Insurance	1,000
Expenses	1,800
	3,100

2. Bad and Doubtful Debts :

	Rs.
Bad debts to be written off	3,600
Provision for Bad and Doubtful debts is to be increased from Rs. 4,200 to Rs, 6,150 *i.e.*	1,950

3. Income Tax :

	Rs.
Provision for Taxation on 1-4-1981	16,900
Less : Income tax liability for the year ending 31-3-1981	15,050
Excess Provision for the last year.	1,850
New Provision to be made during the current year (*Balancing Figure*)	21,650
Provision to be made for the year ended 31-3-1982	23,500

Indian Institute of Bankers' Examination

PART I

BOOK-KEEPING

May, 1983

Problem 1. Following balances have been extracted from the books of account of M/s. Progressive Agencies, a partnership concern, as on 31st December 1982 :—

Cash on hand Rs. 1,250. Bank overdraft Rs. 1,01,500. Capital account—Mr. *A* Rs. 1,14,000. Capital account—Mr. *B* Rs. 1,41,000. Capital account—Mr. *C* Rs. 88,500. Drawings account—Mr. *A* Rs. 3,600. Drawings account—Mr. *C* Rs. 14,300. Purchases Rs. 21,74,000. Sales Returns Rs. 8,700. Sales Rs. 25,81,700. Sundry debtors Rs. 2,14,000. Sundry creditors Rs. 2,15,220. Interest on overdraft Rs. 14,360. Insurance Premium Rs. 4,670. Rent and Rates Rs. 11,300. Printing and Stationery Rs. 3,660. Opening Stock Rs. 4,24,000. Furniture and Fixtures Rs. 2,16,000. Advertising charges Rs. 9,580. Cash Discount on Sales Rs.12,100. Sundry Expenses Rs. 10,100. Salaries Rs. 1,20,000. You are required to prepare Trading and Profit and Loss Account of the firm for the year ended on 31st December 1982 and a Balance Sheet as on that date after taking into consideration the following further information :—

(*i*) Stock as on 31st December 1982 was valued at Rs. 3,98,000 out of which items valued at Rs. 1,400 are to be deleted, being obsolete and not saleable.

(*ii*) Insurance premium includes Rs. 670 paid on the life policy of Mr. *B* on his behalf and a further sum of Rs. 1,000 being the premium amount relating to the year 1983.

(*iii*) Audit fees Rs. 1,300 and Bad debts amounting Rs. 18,500 are to be provided for.

(*iv*) It has been the policy of the firm to adjust the difference in books, if any, to the debit or credit of its Profit and Loss account.

(*v*) Depreciation on Furniture and Fixtures to be written off at the rate of 15% per year on the written down value.

(*vi*) No provision for taxation is considered necessary and net profits are shared by the partners on an equal basis.

(*I I B. Part I,*)

2. Bad and Doubtful Debts :	Rs.
Bad debts to be written off	3,600
Provision for Bad and Doubtful debts is to be increased from Rs. 4,200 to Rs. 6,150 *i.e.*	1,950
3. Income Tax :	
Provision for Taxation on 1-4-1981	16,900
Less : Income tax liability for the year ending 31-3-1981	15,050
Excess Provision for the last year.	1,850
New Provision to be made during the current year (*Balancing Figure*)	21,650
Provision to be made for the year ended 31-3-1982	23,500

Indian Institute of Bankers' Examination

PART I

BOOK-KEEPING

May, 1983

Problem 1. Following balances have been extracted *from the* books of account of M/s. Progressive Agencies, a partnership *concern, as* on 31st December 1982 :—

Cash on hand Rs. 1,250. Bank overdraft Rs. 1,01,500. *Capital* account—Mr. *A* Rs. 1,14,000. Capital account—Mr. *B* Rs. *1,41,000.* Capital account—Mr. *C* Rs. 86,500. Drawings account—Mr. *A* Rs. [illegible]. Drawings account—Mr. *C* Rs. 14,300. Purchases Rs. 21,74,000. Sales Returns Rs. 8,700. Sales Rs. 25,81,700. Sundry debtors Rs. 2,14,000. Sundry creditors Rs. 2,15,220. Interest on overdraft Rs. [illegible]. Insurance Premium Rs. 4,670. Rent and Rates Rs. 11,300. *Printing and Stationery* Rs. 3,660. Opening Stock Rs. 4,24,000. *Furniture and* Fixtures Rs. 2,16,000. Advertising charges Rs. 9,580. Cash *Discount* on Sales Rs.12,100. Sundry Expenses Rs. 10,100. Salaries *Rs. 1,20,000.* You are required to prepare Trading and Profit and Loss *Account of the* firm for the year ended on 31st December 1932 and a *Balance Sheet as* on that date after taking into consideration the following *further informa*tion :—

(*i*) Stock as on 31st December 1932 was valued at [illegible] out of which items valued at Rs. 1,400 are to [illegible] obsolete and not saleable.

(*ii*) Insurance premium includes Rs. 670 paid on [illegible] of Mr. *B* on his behalf and a further sum of [illegible] premium amount relating to the year [illegible].

(*iii*) Audit fees Rs. 1,300 and Bad debts [illegible] to be provided for.

(*iv*) It has been the policy of the firm [illegible]

lution:

TRIAL BALANCE OF
M/S. PROGRESSIVE AGENCIES
as on 31st December, 1982

Name of the account	*Debit Balance*	*Credit Balance*
	Rs.	Rs.
Cash on hand	1,250	
Bank overdraft		1,01,500
Capital account—Mr. *A*		1,14,000
Capital account—Mr. *B*		1,41.000
Capital account—Mr. *C*		88,500
Drawings account—Mr. *A*	3,600	
Drawings account—Mr. *C*	14,300	
Purchases	21,74,000	
Sales returns	8,700	
Sales		25,81,700
Sundry debtors	2, 4,000	
Sundry creditors		2,15,220
Interest on overdraft	14,360	
Insurance premium	4,670	
Rent and Rates	11,300	
Printing and Stationery	3,660	
Opening Stock	4,24,000	
Furniture and Fixtures	2,16,000	
Advertising charges	9,580	
Cash discount on sales	12,100	
Sundry expenses	10,100	
Salaries	1,20,000	
Profit & Loss account (*Difference in books transferred to P & L account as per the policy of the firm*)	300	
	32,41,920	32,41.920

TRADING AND PROFIT & LOSS ACCOUNT OF M/S. PROGRESSIVE AGENCIES
for the year ended 31st December 1982

Dr. *Cr.*

Particulars		*Amount*	*Particulars*	*Details*	*Amount*
To Opening Stock		4,24,000	By Sales	25,81,700	
To Purchases		21,74,000	*Less*: Sales returns	8,700	25,73,000
To Gross Profit transferred to P & L A/c		3,71,600	By Closing Stock	3,98,000	
			Less: Stock of obsolete and not-saleable items	1,400	3,96,600
		29,69,600			29,69,600
To Interest on overdraft		14,360	By Gross Profit transferred from Trading A/c		3,71,600
To Insurance Premium	4,670				
Less: Paid on the life policy of Mr. B transferred to his drawings account	670				
	4,000				
Less: Prepaid for the year 1983	1,000	3,000			
To Rent and Rates		11,300			
To Printing and Stationery		3,650			
To Advertising charges		9,560			
To Cash discount on sales		12,100			
To Sundry expenses		10,100			
To Salaries		1,20,000			
To Difference in the books (*as per Trial Balance*)		300			
To Audit fees outstanding		1,200			
Total c/d		1,35,700	Total c/d		3,71,600

Total b/d	1,85,700	Total b/d	3,71,600
To Provision for Bad Debts	18,500		
To Depreciation on Furniture and Fixtures (@ 15% on Rs. 2,16,000)	32,400		
To Net Profit transferred to Capital Accounts : A (1/3 share) 45,000 B (1/3 share) 45,000 C (1/3 share) 45,000	1,35,000		
	3,71,600		3,71,600

BALANCE SHEET OF M/S. PROGRESSIVE AGENCIES
as on 31st December, 1982

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
	Rs.	Rs.		Rs.	Rs.
Bank overdraft		1,01,500	Cash on hand		1,250
A's Capital A/c	1,14,000		Sundry debtors	2,14,000	
Add : 1/3rd share in the net profit	45,000		*Less* : Provision for bad debts	18,500	1,95,500
	1,59,000		Insurance premium paid in advance for 1983		1,000
Less : Drawings	3,600	1,55,400			
B's Capital A/c	1,41,000		Furniture and Fixtures	2,16,000	
Add : 1/3rd share in the net profit	45,000		*Less* : Depreciation @ 15%	32,400	1,83,600
	1,86,000				
Less : Life Insurance premium paid by the firm on his behalf	670	1,85,330	Stock in hand	3,98,000	
			Less : Stock of obsolete and not saleable items	1,400	3,96,600
C's Capital A/c	88,500				
Add : 1/3rd share in the net profit	45,000				
	1,33,500				
Less : Drawings	14,300	1,19,200			
Sundry creditors		2,15,220			
Audit fee outstanding		1,300			
		7,77,950			7,77,950

Problem 2. M/s. Ruby Industries Ltd., acquired machinery and equipment at a cost of Rs. 2,70,000 in 1979 for their new factory. During the years 1980 and 1981 additions to the machinery and equipment as also the sales therefrom were as under :—

Year	*Cost of additions*	*Cost of machinery and equipment sold*	*Amount of sale proceeds*
	Rs.	Rs.	Rs.
1980	10,100	8,000	6,900
1981	9,175	10,000	9,350

The Company has been writing off depreciation at 15% p.a. on the written down value, beginning from the year in which the machinery and equipment were purchased. Entire machinery and equipment sold during the years 1980 and 1981 were originally purchased in 1979.

In January 1982, the company decided to change the method of charging the depreciation from 1·1% p.a. on written down value to 10% p.a. on the original cost and credit the difference amount to Capital Reserve Account.

You are required to draw (*i*) Machinery and Equipment Account, (*ii*) Depreciation Account, and (*iii*) Profit and Loss on Sale of Machinery and Equipment Account of the Company for the year 1979 to 1981 on the basis of information provided above and also arrive at the amount of *excess* depreciation to be transferred to Capital Reserve Account. All payments for purchases were made by cheques and similarly, the entire sale proceeds were received by cheques which were deposited in Bank account.

(I.I.B. Part I, May 1983)

Solution:

MACHINERY AND EQUIPMENT ACCOUNT

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
1979			1979		
	To Bank A/c	2,70,000		By Depreciation A/c (@ 15% p.a. on Rs. 2,70,000)	40,500
				By Balance c/d	2,29,500
		2,70,000			2,70,000

1980			1980		
	To Balance b/d	2,29,500		By Bank A/c	6,900
	To Bank A/c	10,100		By Depreciation A/c [@ 15% p.a. on Rs. 2,32,800 (Rs. 2,39,700—6,900) as per working note No. 2]	34,920
	To Profit & Loss on sale of machinery and equipment A/c (as per working note No. 1)	100		By Balance c/d	1,97,880
		2,39,700			2,39,700
1981			**1981**		
	To Balance b/d	1,97,880		By Bank A/c	9,350
	To Bank A/c	9,175		By Depreciation A/c [@ 15% p.a. on Rs. 1,99,830 (Rs. 2,09,180—9,350) as per working note No. 4]	29,975
	To Profit & Loss on sale of machinery and equipment A/c (as per working note No. 3)	2,125		By Balance c/d	1,69,855
		2,09,180			2,09,180

(ii) DEPRECIATION ACCOUNT

1979		1979	
To Machinery and Equipment A/c	40,500	By Profit & Loss A/c	40,500
	40,500		40,500
1980		1980	
To Machinery and Equipment A/c (as per working note 2)	34,920	By Profit & Loss A/c	34,920
	34,920		34,920
1981		1981	
To Machinery and Equipment A/c (as per working note 4)	29,975	By Profit & Loss A/c	29,975
	29,975		29,975

(iii) PROFIT & LOSS ON SALE OF MACHINERY AND EQUIPMENT ACCOUNT

1980		1980	
To Profit & Loss A/c	100	By Machinery and Equipment A/c (as per working note No. 1)	100
	100		100
1981		1981	
To Profit & Loss A/c	2,125	By Machinery and Equipment A/c (as per working note No. 3)	2,125
	2,125		2,125

JOURNAL ENTRY

Date	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
1982 Jan.	Profit and Loss A/c	Dr.	25,067	
	To Capital Reserve A/c			25,067
	(Being excess depreciation charged from 1979 to 1981 transferred to Capital Reserve as the company decided to change the method of charging the depreciation from 15% p.a. on written down value to 10% p.a. on the original cost as per working note 5)			

Working Notes:

1. Cost of Machinery and Equipment sold in 1980 is Rs. 8,000. This Machinery and Equipment was purchased in 1979 and depreciation was provided on it @ 15% on the written down value method.

Therefore, its written down value in 1980 is calculated as under:

original cost in 1979	Rs. 3,000
Less: Depreciation for 1979 @ 15%	Rs. 1,200
Written down value in 1980	Rs. 6,800

This machinery and equipment was sold for Rs. 6900.

Thus, profit on sale of machinery and equipment is Rs. 100 (Rs. 6,900—6,800)

2. Depreciation for th[illegible] calculated [illegible]chinery and equipment as under:

Original cost of machinery purchased in 1979	Rs.	2,70,000
Add: Purchased during 1980		10,100
		2,80,100
Less: Sold (as per working note No. 1)		6,800
		2,73,300
Less: Depreciation provided during 1979		40,500
		2,32,800
Depreciation for the year 1980		34,920
Written down value		1,97,880

3. Cost of Machinery and Equipment sold in 1981 is Rs. 10,000. This Machinery and Equipment was puchased in 1979 and depreciation was provided on it @ 15% on the written down value method.

Therefore its written down value in 1981 is calculated as under :

Original cost in 1979	Rs.	10,000
Less: Depreciation for 1979 @ 15%		1,500
Written down value in 1980		8,500
Less: Depreciation for 1980 @ 15%		1,275
Written down value in 1981		7,225

This machinery and equipment was sold for Rs. 9,350.

Thus, Profit on sale of Machinery and Equipment is Rs. 2,125 (Rs. 9,350—7,225)

4. Depreciation for the year 1981 is calculated on Machinery and quipment as under :

Written down value of Machinery in 1980	Rs.	1,97,880
Add: Purchased during 1981		9,175
		2,07,055
Less: Sold (as per working note No. 3)		7,225
		1,99,830
Depreciation for the year 1981		29,957
		1,69,855

5. (a) Depreciation charged on Machinery and Equipment from 1979 to 1981 at 15% p.a. on written down value :

(i) 1979	Rs.	40,500
(ii) 1980	Rs.	34,920
(iii) 1981	Rs.	29,975
		1,05,395

(b) Depreciation to be charged on Machinery and Equipment from 1979 to 1981 at 10% p.a. on original cost :

		Rs.
(i) In 1979 on Rs. 2,70,000		27,000
(ii) In 1980 on Rs. 2,62,000 (Rs. 2,70,000 *Less* Rs. 8,000)	Rs. 26,200	
on Rs. 10,100	Rs. 1,010	27,210
(iii) In 1981 on Rs. 2,52,000 (Rs. 2,62,000 *Less* Rs. 10,000)	Rs. 25,200	
on Rs. 9,175	Rs. 918	26,118
		80,328

Excess depreciation charged is Rs. 25,067 (Rs. 1,05,395—80,328)

* *Figures are taken to the nearest of rupee.*

Problem 3. On the basis of the following information available from the books and records of M/s. Rajesh and Sons, you are required to prepare a Bank Reconciliation Statement as on 31st March 1983 :—

(i) Overdraft balance as per pass book Rs. 14,360.

(ii) Cheques amounting to Rs. 24,450 were deposited by the firm in its bank account on or before 31st March 1983 but the bank cleared them and credited the account on 4th April 1983 excepting one cheque for Rs. 980 which was returned unpaid on 6th April 1983.

(iii) The bank debited Rs. 11 on 6th April 1983 towards its charges on the aforesaid cheque.

(iv) Cheques aggregating Rs. 4,110, issue by the firm on or before 31st March 1983 were presented and debited to the account on 2nd April 1983.

(v) A cheque dated 26th March 1983 issued by the firm for Rs. 3,080 was returned unpaid on 29th March 1983 on account of a technical defect therein. The firm recived the intimation about the return of cheque on 3rd April 1983.

(vi) A cheque for Rs. 1,415 deposited by another firm was wrongly

credited by the bank to the account of this firm o 26th March 1983 and the entry was reversed on 3rd April 1983.

(*vii*) Interest on overdraft amounting to Rs. 181 was debited by the bank on 31st March 1983 but the advice thereof was received by the firm on 2nd April 1983.

You are required to arrive at the balance as per cash book as on 31st March 1983.

(*I.I.B. Part I, May 1983*)

Solution:

BANK RECONCILIATION STATEMENT
OF M/s. RAJESH AND SONS
as on 31st March 1983

Particulars	*Minus Amount (Balance)*	*Plus Amount (Overdraft))*
	Rs.	Rs.
Overdraft as per Pass Book		14,360
Less : Cheques deposited into the Bank but not yet credited into the account	24,450	
Add : Cheques issued but not yet presnted for payment		4,110
Add: Cheques issued but not passed by the Bank on account of technical defect therein		3,080
Add : Cheque wrongly credited by the Bank into the account		1,415
Less : Interest on overdraft debited by the Bank	181	
Balance as per Cash Book		1,666
	24,631	24,631

Note : Cheque amounting to Rs. 980 dishonoured on 6th April 1983 and returning charges thereon Rs. 11 will not affect the Bank Reconciliation Statement, as these transactions took place after the date of preparation of the statement, *i.e.* 31st March 1933.

Problem 4. The Trial Balanee of M/s. Ramani Bros. as on 31st March 1983 shows a difference of Rs. 8,350, the debit total being in excess of the credit total. The Accountant of the firm closed the books placing this amount in an account styled as "Difference in Books Account". The following errors were located in the books of account subsequently in April, 1983 ;—

(*i*) A sum of Rs. 845 being the goods sold on cash was wrongly entered as Rs. 485 in Sales account.

(*ii*) Cheque for Rs. 7,210 received from a debtor Mr. *A* was deposited in bank account but was omitted to be entered in the account of Mr. *A*.

(*iii*) Rs. 4,810 being cash paid to a creditor Mr. *B* was entered as Rs. 4,010 and that too in the account of another creditor Mr. *C*.

(*iv*) Printing expenses Rs. 840 were paid by a cheque but no entry for this transaction appears in the bank account.

(*v*) Goods purchased on credit at a cost of Rs. 1,310 from Mr. *C* were returned to him but no entry was passed in his account at the time of returning the goods although the transaction was duly accounted for in the purchases account.

You are required to pass journal entries (with full narration) for rectifying the above errors and also draw the "Difference in Books Account" to arrive at the closing balance therein as at the end of April, 1983.

(*I.I.B. Part I, May 1983*)

Solution:

RECTIFYING JOURNAL ENTRIES
IN THE BOOKS OF M/S. RAMANI BROS.

during April, 1983

Sl.	*Particulars*	*L.F.*	*Debit Amount*	*Credit Amount*
			Rs.	Rs.
(*i*)	Difference in Books A/c Dr.		360	
	To Sales A/c			360
	(Being cash sales amounting to Rs. 845 correctly debited in the Cash Book but wrongly credited as Rs. 485 in Sales account now rectified by crediting the Sales account with the difference)			
(*ii*)	Difference in Books A/c Dr.		7,210	
	To A's A/c			7,210
	(Being amount received from him correctly debited in Bank account, but omitted to be credited in his account now rectified)			

(iii)	B's A/c	Dr.	4,810	
	To C's A/c			4,010
	To Difference in Books A/c			800
	(Being cash paid to B amounting to Rs. 4,810 correctly credited in Cash Book but wrongly debited in C's account and that too as Rs. 4,010. The amount now correctly debited in B's account and entry from C's account reversed and the difference in amount transferred to 'Difference is Books A/c')			
(iv)	Printing expenses A/c	Dr.	840	
	To Bank A/c			840
	(Being amount paid by cheque already omitted to be recorded in the books, now accounted for)			
(v)	C's A/c	Dr.	1,310	
	To Difference in Books A/c			1,310
	(Being returns outward to C, accounted for in the purchases account but not debited to the suppliers account, now rectified)			

DIFFERENCE IN BOOKS ACCOUNT

Dr. *Cr.*

Sl.	*Particulars*	*Amount*	*Sl.*	*Particulars*	*Amount*
		Rs.			Rs.
(i)	To Sales A/c	360		By Balance b/d	8,350
(ii)	To A's A/c	7,210	(iii)	By B's A/c	4,810
(iii)	To C's A/c	4,010	(v)	By C's A/c	1,310
	To Balance c/d *(Closing balance at the end of April 1983)*	2,890			
		14,470			14,470

Problem 5. Given below is the Receipts and Payments A/c and Income and Expenditure A/c of a CLUB for the year ended 31st December 1982 :—

Receipts and Payments A/c

Receipts	Rs.	*Payments*	Rs.
To opening balance	40,000	By Salaries etc.	72,000
,, Endowments	20,000	,, Provisions	68,000
,, Subscription	1,02,000	,, Printing & Stationery	7,000
,, Entrance fees	8,000	,, Bank	10,000
,, Donations for Books	13,000	,, Sports Materials	28,000
,, Entertainment	40,000	,, Creditors (1981)	13,000
,, Sale of old furniture (Book value Rs. 8,000)	7,000	,, Investments purchased on 1st July, 1981 @ 4% at Rs. 96	19,200
		,, Balance b/d	12,800
	2,30,000		2,30,000

Income and Expenditure A/c

Expenditure	Rs.	*Income*	Rs.
To Loss on sale of furniture	1,000	By Subscription	1,00,000
,, Salaries etc.	77,000	,, Entrance Fees	4,000
,, Audit fees	3,000	,, Interest on Investments @ 4% on Rs. 20,000	800
,, Provisions	60,000		
,, Printing & Stationery	7,500	,, Entertainment	40,000
,, Sports Materials	20,000	,, Excess of Expenditure over Income	23,700
	1,68,500		1,68,500

Prepare Balance Sheet as at 1st *January* 1982 and also as at 31st December 1982.

(I.I.B. Part I, May 1983)

Solution:

BALANCE SHEET OF.........CLUB
as at 1st January, 1982

Liabilities	*Amount*	*Assets*	*Amount*
Provisions outstanding	8,000	Cash in hand	40,000
Sports Materials outstanding	8,000	Furniture	8,000
Creditors for Investments purchased on 1st July, 1981 @ 4% at Rs. 96	19,200	Subscriptions outstanding	2,000
Creditors	13,000	Entrance fees outstanding	4,000
Capital fund (*Balancing figure*)	46,200	Investments	20,000
		Interest on Investments outstanding for 6 month from 1.7.1981 to 31.12.1981 @ 4% p.a. on Rs. 20,000	400
		Endowments outstanding	20,000
	94,400		94,400

BALANCE SHEET OF . ...CLUB
as at 31st December 1982

Salaries outstanding (Rs. 77,000—72,000 paid)		5,000	Cash in hand		12,800
Audit fees outstanding		3,000	Investments		20,000
Printing & Stationery outstanding (Rs. 7,500—7,000 paid)		500	Interest on Investments outstanding		
Donations for books		13,000	for 1981	400	
Capital fund	46,200		for 1982	800	1,200
Less: Deficit—Excess of Expenditure over income	23,700	22,500	Cash at Bank		10,000
		44,000			44,000

Problem 6. M/s. ABC & Co. is a partnership concern with three-partners Mr. A, Mr. B and Mr C sharing profits and losses of the firm in the ratio of 4 : 2 : 2. The Balance Sheet of the firm as on 31st March 1983 is given below :

Liabilities	Rs.	*Assets*	Rs.
Capital A/c of Mr. A	1,14,000	Cash on hand	14,300
Capital A/c of Mr. B	49,000	Cash at Bank	22,800
Capital A/c of Mr. C	52,000	Sundry Debtors	1,81,000
Sundry Creditors	1,28,000	Fixed assets	1,10,000
Provision for expenses	32,600	Prepaid expenses	11,300
Loan from Bank	81,000	Furniture and Fixtures	82,400
		Drawings A/c of Mr *B*	34,800
	4,56,600		4,56,600

It was agreed between the partners that Mr. B will retire from the partnership and Mr. D will join the partnership with effect from 1st April 1983. For the purpose of reconstitution of the firm as above, the partners agreed to the following arrangement :—

(1) Mr. A, Mr. C and Mr. D will share the future profits and losses of the firm in the ratio of 3 : 2 : 1 and their capital will be in the same ratio in which they share the profits. It was also agreed that the total capital of the partners would be Rs. 2,40,000.

(2) To determine the share of outgoing partner, goodwill of the firm is valued at Rs. 1,80,000 and it was agreed that the amount of goodwill shall *not* appear as an asset in the books of the partnership after its reconstitution.

(3) Fixed assets are to be revalued by Rs. 60,000 and Furniture and Fixtures to Rs. 91,000 at the time of reconstitution. 7 per cent of the sundry debtors is considered bad and doubtful and hence the amount is to be written off

(4) Out of the amount payable to Mr. B on account of his retirement, a sum of Rs. 40,000 will be paid in cash and the balance amount, if any, is to be retained as his loan to the firm. Mr. D will bring in Rs. 61,000 as his share of capital and the balance amount, if any, payable by him towards goodwill will be debited to a separate loan account to be opened in his name. Mr A and Mr C will also retain any surplus in their capital accounts as loans to the firm.

You are required to draw (*i*) Revaluation account, (*ii*) Capital accounts of Mr A, Mr B, Mr C and Mr. D, and (*iii*) Balance Sheet of the firm after its reconstitution

(*I I B Part I, May 1983*)

Solution:

REVALUATION ACCOUNT

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To Reserve for bad and doubtful debts (7% of Rs 1,81,000)	12,670	By Fixed Assets	60,000
To Profit on Revaluation transferred to :		By Furniture and Fixtures (Rs. 91,000—82,400)	8,600
A (1/2) 27,965			
B (1/4) 13,983			
C (1/4) 13,982	55,930		
	68,600		68,600

Figures are taken to the nearest of rupee.

(iii) CAPITAL ACCOUNTS

Particulars	A	B	C	D	Particulars	A	B	C	D
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To B's Drawing's A/c	—	34,800	—	—	By Balance b/d	1,14,000	49,000	52,000	—
To B's Capital A/c (*Goodwill*)	—	—	15,000	30,000	By Revaluation A/c	27,965	13,983	13,982	—
To A's Loan A/c (*Balancing figure*)	21,965	—	—	—	By C's Capital A/c (*Goodwill*)	—	15,000	—	—
To Cash	—	40,000	—	—	By D's Capital A/c (*Goodwill*)	—	30,000	—	—
To B's Loan A/c (*Balancing figure*)	—	33,183	—	—	By Cash A/c	—	—	—	61,000
To Balance c/d (*as per working note No. 2*)	1,20,000	—	80,000	40,000	By D's Loan A/c (*as per Working note No. 3*)	—	—	—	9,000
					By C's Loan A/c (*Balancing figure*)	—	—	29,018	—
	1,41,965	1,07,983	95,000	70,000		1,41,965	1,07,983	95,000	70,000

Deficiency in C's account is transferred to his Drawings Account and excess in A's account is transferred to his Loan A/c.

BALANCE SHEET
as on 31st March 1983

Liabilities	Details	Amount	Assets	Details	Amount
	Rs.	Rs.		Rs.	Rs.
Capital Accounts :			Cash on hand (as per Working note No. 5)		35,300
A	1,20,000				
C	80,000				
D	40,000	2,40,000	Cash at Bank		22,800
			Sundry debtors	1,81,000	
A's Loan A/c		21,965	Less : Reserve for bad & doubtful debts @ 7%	12,670	1,68,330
B's Loan A/c		33,183			
Sundry creditors		1,28,000			
Provision for expenses		32,600			
Loan from Bank		61,000	Fixed Assets	1,10,000	
			Add : Revaluation	60,000	1,70,000
			Prepaid expenses		11,300
			Furniture and Fixtures	82,400	
			Add: Revaluation by 8,600		91,000
			D's Loan A/c		9,000
			C's Loan A/c		29,018
		5,36,748			5,36,748

Working Notes :

1. Calculation of gaining and sacrificing proportions :

   A, B and C's old ratio= 4 : 2 : 2 or 1/2, 1/4 and 1/4.

   B retires from and D joins the partnership.

   A, C and D's new ratio= 3 : 2 . 1 or 1/2, 1/3 and 1/6.

   (i) A's old as well as new proportion is 1/2. He has neither sacrificed nor gained.

   (ii) B retire from the firm and sacrifices his ¼th share.

   (iii) C's old *proportion is 1/4th* and *new proportion is 1/3rd.* His gaining proportion is $1/3-1/4=\frac{4-3}{12}=1/12$th.

   (iv) D is admitted and his gaining proportion is 1/6th. Therefore B's sacrifice of ¼th share is gained by C and D in the propotions of 1/12th and 1/6th $\left(\frac{1+2}{12}=\frac{3}{12}=\frac{1}{4}\right)$.

2. Calculation of capital of partners after reconstitution of the

Total capital	=	Rs. 2,40,000
A's share 1/2 *i.e.*		Rs. 1,20,000
C's share 1/3 *i.e.*		Rs. 80,000
D's share 1/6 *i.e.*		Rs. 40,000

3. Calculation of Goodwill :

Goodwill of the firm is valued at Rs. 1,80,000.

B's share in the Goodwill = Rs. $1{,}80{,}000 \times \frac{1}{4}$ = Rs. 45,000.

This amount shall be paid by C and D in their gaining proportions.

C's share = Rs. $1{,}80{,}000 \times \frac{1}{12}$ = Rs. 15,000.

D's share = Rs. $1{,}80{,}000 \times 1/6$ = Rs. 30,000.

JOURNAL ENTRY

C's Capital A/c	Dr.	15,000	
D's Capital A/c	Dr.	30,000	
To B's Capital A/c			45,000

4. Calculation of amount to be brought is by D :

For Capital (*as per working note No. 2*)	=	Rs. 40,000
For Goodwill (*as per working note No. 3*)	=	Rs. 30,000
		Rs. 70,000

Amount brought in Cash by D is only Rs. 61,000, the journal entry for this will be :

Cash A/c	Dr.	61,000	
D's Loan A/c	Dr.	9,000	
To D's Capital A/c			70,000

5. Calculation of cash on hand :

Opening Balance	Rs. 14,300
Add : Amount received from D	Rs. 61,000
	Rs. 75,300
Less : Amount paid to B	Rs. 40,000
Closing Balance	Rs. 35,300

Problem 7. XYZ Ltd. is a company with authorised capital comprising 10,00,000 equity shares of Rs. 10 each.

In 1982 the company issued 1,20,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share. The amount was payable as under :—

Rs. 2·50 on application.

Rs. 3·50 on allotment (including Re. 1 premium)

Rs. 7·00 on first and final call (including Rs. 2 premium).

The Company received applications for 1,50,000 shares. Allotment was made for 1,20,000 shares and the balance amount of application money was refunded to the applicants. Full allotment money was received including the premium amount. Amount received in response to the first and final call notice was Rs. 8,34,050. The Company forfeited the shares on which the first and final call was not paid and reissued them again at a permium of Rs. 3 per share. Entire money on the reissued shares was recieved in one instalment.

You are requested to pass journal entries including those for cash (*with full narration*) to give effect to the above transactions.

(*I.I.B. Part I, May 1983*)

Solution:

JOURNAL ENTRIES

Sl.	*Particulars*		*L.F.*	*Debit Amount*	*Credit Amount*
1982				Rs.	Rs.
1.	Bank A/c	Dr.		3,75,000	
	To Equity share application A/c				3,75,000
	(For application money received on 1,50,000 shares @ Rs. 2·50 per share)				
2.	Equity share application A/c	Dr.		3,75,000	
	To Bank A/c				75,000
	To Equity share capital A/c				3,00,000
	(For amount transferred to share capital account for 1,20,000 shares @ Rs. 2·50 *per share*; and the amount on 30,000 shares refunded to the applicants)				
3.	Equity share allotment A/c	Dr.		4,20,000	
	To Equity share capital A/c				*3,00,000*
	To Share premium A/c				*1,20,000*
	(Being allotment money due on 1,20,000 shares @ Rs. 3·50 per share including Re. 1·00 per share towards premium as per board resolution dated.........)				

			Dr.	Cr.
4.	Bank A/c	Dr.	4,20,000	
	To Equity share allotment A/c			4,20,000
	(Being amount received on 1,20,000 shares @ Rs. 3·50 per share)			
5.	Equity share first and final call A/c	Dr.	8,40,000	
	To Equity share capital A/c			6,00,000
	To Share premium A/c			2,40,000
	(Being amount due in respect of first and final call on 1,20,000 shares @ Rs. 7 per share including Rs. 2 per share towards premium as per board resolution dated.........)			
6.	Bank A/c	Dr.	8,34,050	
	Calls in arreass (first and final call A/c	Dr.	5,950	
	To Equity share first and final call A/c			8,40,000
	(Being first and final call money received on 1,19,150 shares @ Rs. 7 per share. Amount not received on 850 shares transferred to calls is arrears account)			
7.	Equity share capital A/c	Dr.	8,500	
	Share premium A/c	Dr.	1,700	
	To Share forfeiture A/c			4,250
	To Calls in arreass (first and final call) A/c			5,950
	(Being the forfeiture of 850 shares for the non-payment of first and final call @ Rs. 7 share including Rs. 2 for premium as per board resolution dated...)			

Note: Premium received @ Re. 1 per share on allotment is not to be cancelled on the forfeiture of shares because premium once collected cannot be cancelled. The total amount received from the applicants on 850 shares is Rs. 5,100, Rs. 2·50 per share with application and Rs. 3·50 per share with allotment. But this includes Rs. 850, Re. 1·00 per share, towards premium collected with allotment. Hence, share forfeiture account has been credited with an amount of Rs. 4,250 only *i.e.* Rs. 5,100—850)

8.	Bank A/c	Dr.	11,050	
	To Equity share capital A/c			8;500
	To Share premium A/c			2,550
	(Being reissue of 850 shares @ Rs. 13 per share including Rs. 3 per share towards premium. These shares were forfeited @ Rs. 12 per share including Rs. 2 towards premium but reissued at Rs. 13 per share *i.e.* at Rs. 3 premium)			
9.	Share forfeiture A/c	Dr.	4,250	
	To Capital Reserve A/c			4,250
	(Being profit on reissue of 850 shares transferred to capital reserve account)			
	Note: The total profit on reissue is Rs. 5,100 (Rs. 11,050 received *less* Rs 5,950 calls in arrears). Out of this Rs. 4,250 is transferred to Capital reserve account and Rs. 850 in share premium A/c (share premium received Rs. 2,550 *less* share premium cancelled Rs. 1,700)			

Working Note:

BALANCE SHEET OF XYZ Ltd.

Share Capital :		**Fixed Assets :**	
Authorised:		**Investments :**	—
10,00,000 Equity Shares @ Rs. 10 each	1,00,00,000	**Current Assets, Loans and Advances:**	
Issued, subscribed, called and paid up		(A) *Current Assets :* Cash at Bank	15,65,100
1,20,000 shares @ Rs. 10 each	12,00,000	(B) *Loans and Advances :*	—
Reserves and Surplus :		**Miscellaneous Expenditure**	—
Share Premium	3,60,850		
Capital Reserve	4,250		
Secured Loans :	—		
Unsecured Loans :	—		
Current Liabilities and Provisions :	—		
	15,65,100		15,65 100

Problem 8. Prepare the columner Petty Cash Book of Rajan Ltd. for the month of January, 1983 under the imprest system. The petty cash limit fixed was Rs. 250 and the cashier draws money under the imprest petty cash system as and when the balance available with him is below Rs. 50. The petty cash transactions for the month of January, 1983 are given below :—

1st	January 1983	Opening balance	250·00
1st	January 1983	Paid towards conveyance charges	42·00
3rd	January 1983	Purchase of stationery	83·10
3rd	January 1983	Wages to Sweeper	21·00
5th	January 1983	Paid towards conveyance charges	62·00
7th	January 1983	Postage stamps purchased	110·00
9th	January 1983	Wages to [illegible]	42·00
12th	January 1983	Telegr[illegible] aid	9·50
16th	January 1983	Conve[illegible] paid	22·50
16th	January 1983	Wages [illegible]	49·00
19th	January [illegible]	[illegible]ostag[illegible] ased	81·00
19th	Januar[illegible]	[illegible]egr[illegible]	14·00
22nd	Januar[illegible]	[illegible]rt[illegible] es	31·30
25th	Januar[illegible]	[illegible]cs	63·00
25th	Januar[illegible]	[illegible]c[illegible]	27·00
28th	Januar[illegible]	[illegible] d	36·0[illegible]
31st	Januar[illegible]	[illegible]	[illegible]7·0[illegible]
31st	Januar[illegible]	[illegible]	

Solution:

COLUMNAR PETTY CASH BOOK OF RAJAN LTD

Amount Received	Date	Particulars	Amount Paid	Balance	Conveyance	Stationery	Wages	Postage of Telegram	Entertainment	Sundry Expenses
	1983									
250.00	Jan. 1	To Balance b/d	—	250.00	—	—	—	—	—	—
	,, 1	By Conveyance charges	42.00	208.00	42.00	—	—	—	—	—
	,, 3	By Stationery purchased	83.10	124.90	—	83.10	—	—	—	—
	,, 3	By Wages to sweepers	21.00	103.90	—	—	21.00	—	—	—
	,, 5	By Conveyance charges	62.00	41.90	62.00	—	—	—	—	—
208.10	,, 5	To Cash	—	250.00	—	—	—	—	—	—
	,, 7	By Postage stamps purchased	110.00	140.00	—	—	—	110.00	—	—
	,, 9	By wages to sweeper	42.00	98.00	—	—	42.00	—	—	—
	,, 12	By Telegram charges	9.50	88.50	—	—	—	9.50	—	—
	,, 16	By Conveyance charges	22.50	66.00	22.50	—	—	—	—	—
	,, 16	By Wages to sweeper	49.00	17.00	—	—	49.00	—	—	—
233.00	,, 16	To Cash	—	250.00	—	—	—	—	—	—
	,, 19	By Postage stamps	81.00	169.00	—	—	—	81.00	—	—
	,, 19	By Telegram charges	14.00	155.00	—	—	—	14.00	—	—
	,, 22	By Entertainment expenses	31.30	123.70	—	—	—	—	31.30	—
	,, 25	By Wages to sweeper	63.00	60.70	—	—	63.00	—	—	—
	,, 25	By Taxi charges	27.60	33.10	27.60	—	—	—	—	—
		Total c/d	658.00		154.10	83.10	175.00	214.50	31.30	—

Problem 8. Prepare the columner Petty Cash Book of Rajan Ltd. for the month of January, 1983 under the imprest system. The petty cash limit fixed was Rs. 250 and the cashier draws money under the imprest petty cash system as and when the balance available with him is below Rs. 50. The petty cash transactions for the month of January, 1983 are given below :—

1st	January 1983	Opening balance	250·00
1st	January 1983	Paid towards conveyance charges	42·00
3rd	January 1983	Purchase of stationery	83·10
3rd	January 1983	Wages to Sweeper	21·00
5th	January 1983	Paid towards conveyance charges	62·00
7th	January 1983	Postage stamps purchased	110·00
9th	January 1983	Wages to Sweeper	42·00
12th	January 1983	Telegram charges paid	9·50
16th	January 1983	Conveyance charges paid	22·50
16th	January 1983	Wages to Sweeper	49·00
19th	January 1983	Postage stamps purchased	81·00
19th	January 1983	Telegram charges	14·00
22nd	January 1983	Entertainment expenses	31·30
25th	January 1983	Wages to Sweeper	63·00
25th	January 1983	Taxi charges paid	27·60
28th	January 1983	Postage stamps purchased	36·00
31st	January 1983	Entertainment expenses	27·00
31st	January 1983	Wages to Sweeper	42·00

(I.I B. Part I, May 1983)

Solution:

COLUMNAR PETTY CASH BOOK OF RAJAN LTD

Amount Received	Date	Particulars	Amount Paid	Balance	Conveyance	Stationery	Wages	Postage of Telegram	Entertainment	Sundry Expenses
					Analysis of Payments					
	19[illegible]3									
250·00	Jan. 1	To Balance b/d	—	250·00	—	—	—	—	—	—
	" 1	By Conveyance charges	42·00	208·00	42·00	—	—	—	—	—
	" 3	By Stationery purchased	83·10	124·90	—	83·10	—	—	—	—
	" 3	By Wages to sweepers	21·00	103·90	—	—	21·00	—	—	—
	" 5	By Conveyance charges	62.00	41.90	62·00	—	—	—	—	—
208·10	" 5	To Cash	—	250·00	—	—	—	—	—	—
	" 7	By Postage stamps purchased	110·00	140·00	—	—	—	110·00	—	—
	" 9	By wages to sweeper	42·00	98·00	—	—	42·00	—	—	—
	" 12	By Telegram charges	9·50	88·50	—	—	—	9·50	—	—
	" 16	By Conveyance charges	22·50	66·00	22·50	—	—	—	—	—
	" 16	By Wages to sweeper	49·00	17·00	—	—	49·00	—	—	—
233·00	" 16	To Cash	—	250·00	—	—	—	—	—	—
	" 19	By Postage stamps	81·00	169·00	—	—	—	81·00	—	—
	" 19	By Telegram charges	14·00	155·00	—	—	—	14·00	—	—
	" 22	By Entertainment expenses	31.30	123·70	—	—	—	—	31·30	—
	" 23	By Wages to sweeper	63·00	60·70	—	—	63·00	—	—	—
	" [illegible]	By Taxi charges	27·60	33·10	27·60	—	—	—	—	—
[illegible]		Total	658·00		154·10	83·10	175·00	214·50	31·30	—

691·10		Total b/d	658·00		154·10	83·10	175·00	214·50	31·30	—
216·90	,, 25	To Cash	—	250·00	—	—	—	—	—	—
	,, 28	By Postage stamps	36·00	214·00	—	—	—	36·00	—	—
	,, 31	By Entertainment expenses	27·00	187·00	—	—	—	—	27·00	—
	,, 31	By Wages to sweeper	42·00	145·00	—	—	42·00	—	—	—
			763·00							
	,, 31	By Balance c/d	145 00							
908·00			908 00		154.10	83·10	217·00	250·50	58·30	—
1983										
145·00	Feb. 1	To Balance c/d								

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* *Represents the alternative question*

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Important Topics During the Last 10 Sessions

August 1978—May 1983

Sl.	*Topics*	*Section*	*Examination Sessions*	*Frequency*
1.	Bank Reconciliation Statement	1·E	May 83, Nov. 82, May 82, Nov. 81, May 81, Aug. 80, Nov. 79, Aug. 79, Aug. 78.	
2.	Accounts of non-trading concerns	4·A	May 83, Nov. 82, May 82, Nov. 81, May 81, Aug. 80, Nov. 79, Aug. 78.	
3.	Rectifying Entries	2·B	May 83, Nov. 82, Nov. 81, May 81, Oct. 80, Nov. 79. Apr. 79.	
4.	Bills of Exchange	5·A	Nov. 82, May 82, May 81, Oct. 80, Apr. 80, Nov. 79, Aug. 78.	
5.	Forfeiture of Shares	9·C	May 83, May 82, Nov. 81, Nov. 79, Nov. 79, Apr. 79.	
6.	Final Acccounts	3·B	Nov. 81, Nov. 79, Nov. 79, Apr. 79, Aug. 78.	
7.	Joint Venture Accounts	7·B	Nov. 82, May 82, May 81, Oct. 80, Nov. 79.	
8.	Depreciation	2 D	May 83, Nov. 81, Oct. 80, Nov. 79.	
9.	Self Balancing Ledgers	6 A	Nov. 82, Oct. 80, Nov. 79, Apr. 79.	
10.	Consignment Accounts	7·A	May 82, May 81, Apr. 80, Apr. 79.	
11.	Partnership-final Accounts	8·B	May 83, May 82, May 81, Apr. 80.	
12	Partnership-Admission	8·C	May 82, May 81, Apr. 80.	
13.	Partnership-Dissolution	8·E	Nov. 81, Oct. 80, Aug 78.	
14.	Accounts Current	7·C	Apr. 79, Aug. 78.	
15.	Partnership Retirement	8·D	May 83, Nov. 82.	
16.	Issue of Bonus Shares	9·D	Nov. 79, Aug. 78.	
17.	Final Accounts of Company	9·F	Nov. 82, Oct. 80.	